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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

SPECIAL SERVICES FEES AND CLASSIFICATIONS) Docket No. MC96-3

INITIAL BRIEF OF
THE OFFICE OF THE CONSUMER ADVOCATE
TO THE
POSTAL RATE COMMISSION

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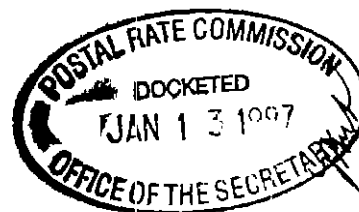


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SUMMARY OF ARGUMENT

The Postal Service in this proceeding has requested additional net revenues that it does not need. The only plausible explanation for the Service's seeking the additional net revenues is that it has decided to behave like a profit-maximizing monopolist and vacuum up whatever new net revenues happen to be available in the context of whatever case it happens to be litigating before the Commission. Such behavior is inconsistent with both the public service mission of the Postal Service and the ratemaking criteria of the Postal Reorganization Act.

The Postal Service has failed to support its use of statistical cost and revenue estimates from the RPW, IOCS, CCS, RCS, and TRACS, either with the testimony of a witness or even with unsponsored documentation. Numerous holes remain in the documentation of the Service's statistical cost estimates. The record lacks the substantial evidence needed to rely on such estimates. In a case (involving, say, parcels) in which statistical estimates of attributable costs figure more prominently in the development of proposed rates, serious evidentiary problems will arise if the defects of the instant

case are not repaired.¹ Part II of this initial brief can serve as a blueprint for the Postal Service in developing proper documentation of its statistical cost and revenue systems in future proceedings. It will also serve as a guide for discovery requests in future proceedings, if the defects of the instant case are not repaired.

The existing post office box delivery group fee structure is irrational and results in unfairly high box fees for rural boxholders, while boxholders in urban and suburban areas avoid paying fees that fully reflect the high space provision costs of the metropolitan areas where they rent boxes. The Commission should not make any changes to post office box fees until the fee structure has been reconfigured, with CAG groupings as the framework. Re-grouping by CAG should have the effect of passing along high rental costs for upper level CAGs, e.g., A-C, to boxholders in high-cost areas where such CAGs tend to be located. Likewise, the box fees for more sparsely populated areas would reflect the low rental costs of CAGs located there (e.g., CAGs K-L). The Postal Service's refusal to redesign the fee structure

¹ TRACS documentation was particularly deficient in MC96-3. In a future case where transportation costs may constitute 50 percent of the attributable costs of a category of mail, such deficiencies will prove catastrophic.

along CAG lines fuels the box shortages that they bemoan in this proceeding by depressing box fees in large metropolitan areas where shortages are more commonplace.

The Postal Service proposes, for the first time, to impose a surcharge on nonresident boxholders, ostensibly to compensate the Service for higher administrative burdens and costs occasioned by such nonresidents. OCA has proved, through the testimony of its witness Callow, that this surcharge is irrational and inequitable. The Postal Service has produced no record evidence of any difference in the costs of providing box service to residents compared to nonresidents. Almost all of the cost-causing behavior alleged by the Service has been shown to be as prevalent or more prevalent among residents than nonresidents.

In an effort to persuade the Commission that substantial increases to box fees are warranted, the Postal Service introduces various statistical measures of box shortages. OCA witness Callow has decisively shown that there is no box shortage on a national basis, and to the extent that shortages exist in isolated locales, imposition of substantially higher box fees on all boxholders, in all locations, is unconscionable and will not produce the desired effect. Furthermore, the Postal Service refuses to make any commitment to use the revenues that would be

generated by the fee increases to add even a single box in areas where shortages exist. Allocation of these revenues to Postal Service needs is jealously defended as a management prerogative.

If the Commission chooses to change post office box fees in this proceeding, then OCA cites witness Callow's proposed fees as eminently the better choice. In his proposal, Witness Callow preserves the cost coverage established by the Commission in the last rate case and reduces fee disparities among box groups and box sizes.

OCA opposes the 36-percent increase to the certified mail fee proposed by the Postal Service as an effort by a profit-maximizing monopolist to exploit the price insensitivity of this mail arising from a lack of competitively priced alternatives. Postal Service witness Needham's position, that this price increase is warranted because of (unproven) revenue shortfalls caused by Postal Service and Commission errors in every omnibus rate case from Docket No. R84-1 through R94-1, has not been thoroughly documented and explained on the record. No action should be taken before the next omnibus rate case when her allegations may be thoroughly explored through discovery and oral cross-examination.

A parallel 36-percent increase in the return receipt fee for a new, hybrid service should be rejected, although the classification change underlying the fee increase should be adopted. The Postal Service's proposal consists of a plan to merge the no-address and address options of return receipt service into a single "address-if-different" classification at the higher fee of \$1.50. OCA witnesses Collins and Sherman point out the unfairness of this change since almost all return receipt customers currently choose the no-address option at the lower fee of \$1.10. The proposal to charge them \$1.50 for an "address-if-different" service is tantamount to a pure price increase if customers are forced to pay for a service they plainly do not want. Consequently, OCA witness Collins recommends that the two options be collapsed into the single service, but with no fee increase. This is possible because the cost associated with the "address-if-different" option is insignificant.

The Postal Service proposal to add a stamped card fee of two cents to the 20-cent rate already paid by postal card customers has been demonstrated to be inequitable and uneconomic. The attributable cost of postal cards is less than half of that of private cards. The Service's contemplated increase to the postal card rate (by adding a stationery fee) would have the effect of

discouraging the use of highly efficient, low-cost postal cards and encouraging the use of relatively more inefficient, high-cost private cards. Rejection of the stamped card fee is the only reasonable course of action.

PROCEDURAL HISTORY

On June 7, 1996, the United States Postal Service filed its Request for A Recommended Decision on Special Service Changes (herein "Request") with the Postal Rate Commission (herein "Commission"). The Request was accompanied by eight pieces of testimony, including exhibits.

The Service's Request, generally speaking, proposes changes to the service terms and rates for post office boxes (including caller service), certified mail, return receipt, insurance and registry service. It proposes to treat the production of postal cards as a new special service, distinct from the postage that such cards require, and to rename postal cards "stamped cards." It also proposes to eliminate special delivery service.

More specifically, as to post office boxes at city delivery offices (Group I), the Service would increase fees by an average of 24 percent; as to non-city delivery offices (Group II) the fees would be increased by 100 percent. The Service would eliminate basic fees for offices with no carrier delivery, and institute an annual \$36 non-resident fee (for individuals and businesses that reside or are located in one ZIP Code area and

use a post office box in another²). It also would refine definitions of the fee categories.

As to certified mail and return receipts, the Service would increase the certified mail fee by 40 cents; replace the two basic return receipt options with one intermediate option; and, limit the return receipt for merchandise service to Priority Mail and Standard Mail.

As to insurance, the Service proposes to raise the indemnity limit from \$600 to \$5,000, and the maximum indemnity for Express Mail merchandise from \$500 to \$5,000. It also would reduce the limit for Express Mail document reconstruction from \$50,000 to \$500 per piece.

The Service proposes to simplify its fee schedule by eliminating uninsured registry service over \$100; rename "postal cards" as "stamped cards" (instituting a two-cent fee above postage for stamped cards); and, eliminate special delivery service.

A significant feature of the request is that it is not revenue neutral. The Postal Service estimates that if its proposals had been in effect throughout FY 1996, it would have

² The definition of "non-resident" has mutated throughout the course of this proceeding and remains in a state of flux.

enjoyed a net increase in system revenue of \$339.4 million. The additional revenue would be obtained by increasing the contribution to institutional costs only from certain special services, the demand for which is, according to the Postal Service, less sensitive to price increases. Rather than the normally employed omnibus rate proceeding for this magnitude of a rate increase, the case has been docketed under an "MC" or mail classification designation rather than as an "R" or rate designation.

Early on in the proceeding, the Commission noted another novel aspect to the Postal Service's filing.³ In the past, interim Service filings used the same base year and test year as in the most recent omnibus rate filing, enabling a cost and revenue effects comparison between the system in place and the proposed system. Here, the Postal Service used a base year (FY 1995) and a test year (FY 1996) that were not used to evaluate the rate and classification schedules in place. Further, the Service used its own Cost and Revenue Analysis Report (CRA) to

³ Commission Order No. 1115, Notice of Request for Changes in Domestic Mail Classification Schedule Provisions and Rates for Special Services and Order Instituting Proceedings, issued June 12, 1996, at 4-6.

develop base year costs, rather than following as much as is practical the Commission's approved costing methods.

In Order No. 1115, the Commission set the Service's request for a recommended decision as Docket No. MC96-3.⁴ That "notice and order" also designated W. Gail Willette, Director of the Office of the Consumer Advocate (OCA), to represent the interests of the general public, and scheduled a prehearing conference for July 12, 1996. Twenty-one parties intervened in addition to the OCA. In a June 17, 1996, notice the Chairman of the Commission designated H. Edward Quick, Jr., to serve as Presiding officer.

The Commission sat *en banc* for nine days of evidentiary hearings, with all or part of six days of hearings allotted during the period to the testimony of Postal Service witnesses.

The date for filing initial briefs, as amended, was set for January 14, 1997. Reply briefs are due January 21, 1997.

In developing the evidentiary record, the Commission issued a notice of inquiry (referred to below) and the Presiding Officer issued six multi-part Information Requests on a wide variety of topics to the Postal Service.

⁴ The Commission retained an "MC" designation even though it observed that the proposals to increase net revenue appeared to more suitably fit the pattern of a rate designation matter.

Procedural Issues. The major procedural issues herein arise from the Postal Service's failure to comply with the Commission's rules of practice for the provision of information. As detailed below, the Postal Service's initial filing was deficient, seemingly willfully so. Its inability and unwillingness to provide basic information that would allow the public to evaluate its proposals was a recurring subject of motions and Commission orders. This continuing failure threatened the due process rights of the participants and the integrity of the Commission's administrative process, delayed the resolution of the proceeding, and caused OCA and the public participants to expend resources needlessly.

The procedural obstacles erected by the Postal Service are exemplified first by Order No. 1120, issued June 18, 1996. There, the Commission ordered the Service to provide (1) additional cost presentations on or before July 5, 1996, consisting of versions of USPS-T-5A-J that comport with the Commission's cost attribution methodology from R94-1; and, (2) a version of witness Lyon's Exhibit C (USPS-T-1) that reflects the Commission's cost attribution methodology.

The Service filed a motion for reconsideration of Order No. 1120 on June 28, 1996, arguing that it may choose the methods by

which it estimates the cost and cost coverage consequences of its proposals. It further argued that application of the R94-1 attribution methods was not needed; in part it argued that it need not refer to the cost coverages of other classes and subclasses of mail, but may simply compare the proposed cost coverages among the affected special services. It also argued that the appropriateness of its proposals could be evaluated without their relationship to, or their impact on, the cost coverages for the various classes and subclasses of mail. Major Mailers Association (MMA) and OCA opposed the motion for reconsideration.⁵

The Commission denied the Service's motion for reconsideration in Order No. 1126, issued July 19, 1996. Noting that in the past a proposed fee for a given special service often was presented as a routine, periodic realignment of the fee with the underlying attributable costs of that service, here, the Commission noted, the Service itself characterized the request as a shift of a substantial portion of the system's institutional

⁵ The MMA Response to the Postal Service Motion for Reconsideration, filed July 15, 1996, was accompanied by motions for late intervention and for filing a response out of time. The Commission granted the motions, finding as persuasive the explanation that the issue of documenting effects of Postal Service proposals according to established attribution methods affects MMA's interests.

cost burden onto this subset of special services as part of a new "demand pricing" business strategy in order to recover prior year losses or to delay rate increases for other mail service. Such changes, the Commission noted, raise issues of the appropriateness of the relative revenue burdens and cost coverages that the proposed system would exhibit. In short, the changes proposed would have a significant impact on the system as a whole, and the cost coverage evaluations set forth in R94-1 would provide the legal foundation of the "before rates" rate relationships assumed to prevail in the test year in this docket.

The Service had also contended that it fully complied with Rule 54's requirements to present estimates of total actual and estimated accrued costs for various years. It asserted that Rule 54 did not require that its estimates be presented in a particular manner or in accordance with a particular methodology; therefore, additional costing information was said not to be warranted.

The Commission stated in its ruling, though, that while diverse costing methods may be used, Rule 54 requires that each request include enough information to permit determination of what the impact of the proposals would be on system costs, volumes, and revenues. Rate relationships measured by

definitions and methods that have been established by precedent provide the only consistent reference point from which the impact of the proposed changes can be evaluated. The starting point must be a consistent definition of attributable costs, which is found in Docket R94-1. The Commission disagreed with the Service's assertion that cost coverages for special services resulting from its proposals would not vary significantly if they were measured by established methods. The Commission noted that attributing costs by different methods can be expected to have a significant effect on the relative cost coverages among mail services.

On August 2, 1996, the Postal Service announced it would not comply with the orders. The Service stated that while the costs used in its request in most instances adhered to the Commission's attribution methodologies, certain methodologies were not employed because the Service believed they were fundamentally flawed. The Postal Service stated that while it might provide some additional information, it would decline to provide any costing presentation that incorporated the Commission's single subclass costing analysis.

Participants objected to the Postal Service's position. OCA, in seeking delay of all procedural steps, characterized the

Postal Service position as willful and deliberate defiance. The American Bankers Association and the Newspaper Association of America jointly submitted comments objecting to the Postal Service position, stating that suspension sanctions would be appropriate. This position was echoed by the Major Mailers Association. The Postal Service filed a reply to the OCA motion, claiming it had provided sufficient cost information, and that since due process requires a proponent of any costing approach to explain and justify that approach, it could not present costs incorporating a method it was unwilling to defend.

In Order No. 1134, issued September 20, 1996, in response to the OCA request that the Commission suspend all procedural deadlines in the case until the Postal Service complied with Orders No. 1120 and 1126, the Commission found that (1) the Postal Service had not responded, and announced it would not respond, to the two lawful orders; (2) the Postal Service failure to respond had hampered, and might unreasonably delay consideration of this case; and, 3) the actual delay that was the proximate result of the Postal Service failure was not then readily apparent. The OCA motion was denied, but without prejudice, and the Commission announced it might later invoke 39 U.S.C. 3624(c)(2) if so required.

The Commission order stated that the Postal Service's assertion of flawed Commission methodology permitted submission of evidence urging that the methodology be changed, but that circumstances did not justify a refusal to recognize the existence and precedential effect of several methods that may have been found proper and used in prior omnibus rate decisions⁶ in a case where the proposals being considered would alter the institutional cost contributions of other mail categories. Stating that it was clear that the Postal Service had failed to comply with its orders, the Commission found nonetheless that the extent of the delay caused was not clear. The Commission, however, explicitly gave notice that it might later invoke Section 3624(c)(2).

To minimize delay, the Commission in Order No. 1134 instructed its staff to prepare documents showing the base year 1995 calculation of the direct and indirect city carrier costs using the established methodology of single subclass stops. The Commission noted it had prepared documents showing the base year costs attributed to the classes and services employing approved

⁶ The Postal Service expressed concern with the treatment of certain city carrier out of office costs. In Docket R94-1, the Commission had concluded that the cost of accessing a delivery point for the purpose of delivering a single subclass of mail should be attributable to that subclass.

methods, and the established test year attributions employing, to the extent possible, the roll-forward procedure used by Postal Service witness Patelunas.

Ironically, the documents the Commission directed staff to prepare in Order No. 1134 themselves became subject to Postal Service attack. On December 12, 1996, in Order No. 1143, the Commission denied the United States Postal Service Motion (and supplements thereto) to Strike Testimony of Witnesses Bentley and Thompson (or in the Alternative, for Production of a Commission Witness). The Postal Service sought to expunge from the record all instances where another party's witness had referred to PRC-LR-1 and PRC-LR-2, library references the Commission staff provided pursuant to Order No. 1134 to assist parties to understand the scope and impact of the Postal Service proposals. The Postal Service argued that the library references had not been admitted into evidence or sponsored by a witness subject to cross examination; therefore, it contended that statements which refer to the references or rely on them may not be considered. In its answer opposing the Postal Service Motion, OCA noted that

the Postal Service itself relied heavily on unsponsored, nonevidentiary library references.⁷

In its Order No. 1143, the Commission explained, *inter alia*, that evidentiary standards in administrative proceedings are more flexible than those used in criminal or civil court proceedings; that expert witnesses can rely on their broad professional knowledge in testimony; and, that witness Bentley did not vouch for the accuracy of the library references. Noting that the library references were created to assist the public in light of the Postal Service's failure to provide sufficient information, the Commission held that the references were not intended to have independent evidentiary status and did not constitute a proposal to change established cost attribution methods.

As an outgrowth of the procedural controversies in this docket, the Commission on December 17, 1996, issued a Notice of Proposed Rulemaking proposing to amend Rule 54, clarifying the requirement that when the Postal Service files a request that proposes to change rates or fees, and at the same time proposes to change established cost attribution principles, the Postal Service is further required to estimate the impact of its

⁷ Office of the Consumer Advocate, Answer to Motion of the United State Postal Service to Strike Testimony of Witnesses Bentley and Thompson, November 29, 1996, at 3-7.

proposed changes in rates or fees separately from the impact of its proposed changes in attribution principles, *i.e.*, it must include with its request an alternate attributable cost presentation that would calculate attributable costs and cost coverages according to established attribution principles.⁸

As is frequently the case in Commission administrative proceedings, there are many unresolved substantive issues in this proceeding that emanate from various procedural rulings by the Commission or the Presiding Officer (*e.g.*, motions to compel responses). OCA will discuss throughout this brief the body of substantive evidence that has resulted from these various rulings. However, one procedural ruling that now affects the quantum of evidence deserves special mention.

On November 26, 1996, OCA filed a motion to require, *inter alia*, the Postal Service to Provide Draft Implementation Rules for the Proposed Nonresident Box Fee,⁹ to which the Postal Service replied on December 6, 1996, as supplemented on December 13, 1996. OCA argued that the Postal Service had not yet worked

⁸ Docket No. RM97-1, Notice of Proposed Rulemaking, issued December 17, 1996.

⁹ Office of the Consumer Advocate Motion to Require the Postal Service to Provide Draft Implementation Rules for the Proposed Nonresident Box Fee and A Witness to Stand Cross-Examination on such Draft Rules, November 26, 1996.

out the implementation of the rule on such important issues as to how one qualified as a resident. The Presiding Officer denied the OCA motion, stating that the requested relief could delay the case significantly.¹⁰ In his ruling, the Presiding Officer accepted as accurate "Postal Service statements to the effect that it has not yet developed language that it is willing to publish as 'tentative decisions' about how the proposed nonresident fee would be applied."¹¹ The Presiding Officer added that if "OCA concludes that there is not sufficient information available to reach an informed decision on the merits of that proposal, it may so advise the Commission in its briefs."¹²

The OCA advises the Commission that the Postal Service non-resident box fee proposal is inchoate; without a firm set of implementation rules, it is not possible for the public, or the Commission, fully to be able to evaluate the revenue and cost effects of the proposal. Further, OCA believes that the Commission should note for future reference the inadvisability of procedural rulings that permit a proceeding to lurch onward without a clear definition of the proposal's scope and

¹⁰ Presiding Officer's Ruling Denying Request for Production of a Witness on Nonresident Box Fee Rules, December 23, 1996.

¹¹ Id. at 2.

¹² Id.

applicability to the public. Requiring the analysis of gossamer proposals is costly to the ratepayer and to the participants.

Miscellaneous Procedural Matters. In Order No. 1129, issued August 8, 1996, the Commission, after accepting certification by the Presiding Officer, granted the July 15, 1996, Motion of Nashua Photo, Inc., and Mystic Color Lab to enlarge the scope of the proceeding to consider an alleged inequity in the fee structure for Business Reply Mail. In Order No. 1129, the Commission permitted enlargement of the proceeding's scope. However, resolution of these issues became moot with the Presiding Officer's ruling on December 19, 1996, granting the motion of Nashua, Mystic and Seattle Filmworks for leave to withdraw their proposal. The withdrawal was motivated by the Service's filing on December 13, 1996, of a Request for a Recommended Decision on Experimental Nonletter-Size Business Reply Mail Categories and Fees, designated as Docket No. MC97-1.

On November 14, 1996, the Commission issued Notice of Inquiry No. 1 Regarding Potential Improvements in the Organization and Structure of DMCS Provisions Related to Various Special Services. Participants were invited to comment on a variety of editorial and organizational matters, including adoption of a new numbering system for Special Services, and use

of standard editorial devices and internal headings. Broader comments were requested on an across-the-board application of a new numbering system, and adoption of editorial revisions in sections or schedules not substantively affected in this proposal. The OCA filed comments in response on December 3, 1996, which we incorporate by reference in this brief.

I. THE POSTAL SERVICE'S "UNUSUAL" REQUEST FOR ADDITIONAL NET REVENUES OUTSIDE OF AN OMNIBUS RATE CASE PROCEEDING HAS NOT BEEN JUSTIFIED

The Postal Service has requested that the Commission recommend an increase of \$339 million in annual net income. This additional net income would come entirely from increases in fees for certain special services. The Postal Service has not explained why it needs additional net income at this time, what it will do with the additional net income, or why most classes and services have been excused from contributing to the increase in net income. The only plausible explanation for the amount of additional net revenue sought by the Postal Service in this case is that \$339 million just happens to be the amount of extra net revenue obtainable through monopolistic profit maximization directed at arbitrarily selected special services.

Although it is not clear how the Postal Service will use additional net income in future years, it is clear that the special services whose fees are to be increased neither caused a need for increased net revenues nor will benefit from the increased fees they will pay. It is thus difficult to discern any difference between the requested outcome of this case and the

outcome of a general rate case in which most categories of mail are spared any rate increase.

A. No Good Reason Has Been Established For The New Net Revenue Requirement Of \$339.4 Million

The Postal Service realized net income in both FY 95 and FY 96, and expects to generate net income in FY 97. As indicated in the Annual Report of the Postmaster General, the FY 95 net income was \$1.8 billion. Recent Postal Service estimates place the FY 96 net income at \$1.567 billion. (December 4, 1996, Board of Governors meeting.) The net income budgeted for FY 97 is \$55 million. (Transcript of Proceedings of Board of Governors Meeting, September 10, 1996, at 18-19.) The Postal Service provides no rationale for requesting additional net revenues of any particular amount, much less the specific amount of \$339.4 million.

Meeting goals set by the Postal Service in Docket No. MC96-3 does not require additional net revenues. In an interrogatory to witness Thompson, the Postal Service asked whether two of the goals witness Lyons articulated in his testimony could be accomplished in an omnibus rate case. The two goals witness Lyons identified are as follows:

First, the pricing and classification proposals are designed to place the services and products on a more economically rational, businesslike basis. . . .

Second, we have reviewed the service offerings themselves to see what improvements could be made to make them more useful to the customer, and both easier to administer and understand.

USPS-T-1 at 2. Witness Thompson replied that neither goal was precluded from being accomplished in an omnibus rate case.

Tr. 5/1376. Neither goal justifies additional net revenue for the FY96 test year.

Witness Lyons identifies additional goals in his testimony at 6. The goals are as follows:

In the interest of mitigating the impact of general increases on its customers, the Postal Service would like to moderate the pace toward the eventual need to increase overall revenues as a result of rising cost levels. . . . The infusion of revenues from these sources would contribute to the Postal Service's general financial policy goals, including the Board of Governors' concern for restoring equity.

1. "Mitigation" of future rate increases does not explain a new net revenue requirement of any particular amount

Mitigating the impact of general increases is a worthy goal, but it does not justify targeting special services with a new non-attributable net revenue requirement, nor does it serve to explain how the Postal Service settled on \$339 million as the amount of new net revenue it needs now. Indeed, witness Thompson

has shown that the so-called "mitigation" of future rate increases is trivial. Spread over all subclasses, \$339 million amounts to less than 0.2 cents per piece.¹³ It is difficult to see how such small reductions in future rate increases can justify the mammoth fee increases proposed by the Postal Service in this docket.

From the point of view of afflicted special services, mitigation of fee increases would better be achieved in a general rate case. Those special services would avoid the double whammy they now face (huge increases now, more increases to come in the next general rate case). And the "mitigation" argument could not be phrased in terms of vague, "future general" rate increases. It would be obvious that mitigation for some means higher rate increases for the rest.

As witness Thompson testified, there is no minimum amount of revenues that may be requested in an omnibus rate filing. Tr. 5/1363-64 and 1376-77. However, the Postal Service would indeed exercise less control over which rates were increased in an omnibus rate filing. Approval of the current proposal provides the Postal Service with an effective method of *controlling* (not mitigating) price increases, thereby undermining the Commission's

¹³ See Tr. 5/1365, n.22: $\$339.4 / 184,625.794 = \0.0018 .

authority. Favored mail classes and subclasses could experience few (or no) rate increases and those that they do experience could be held to moderate levels, while less favored mail categories would likely be subjected to frequent, large price hikes. Moderating rate increases for all mailers is a desirable goal, but the Postal Service's proposal to moderate rate increases for the many, at the expense of the few, cannot be condoned.

2. Speedier recovery of prior years' losses does not explain a new net revenue requirement of any particular amount

Witness Lyons argues that huge rate increases for special services are needed to generate additional revenues to achieve the Board of Governors' policy on restoring equity. USPS-T-1 at 6; Tr. 9/3347-49. However, witness Lyons admits that the Postal Service's negative equity position dates back to the early 1970s and cannot be ascribed to losses incurred by special services. Tr. 2/146-49. On this ground alone, the price increases proposed in this proceeding are unjustified. Indeed, if the policy of restoring equity is so powerful as to justify the selective rate increases proposed in this docket, it could just as well justify a selective increase in the first-ounce rate for First Class.

The "principle" enunciated by witness Lyons of raising rates for the few to benefit the many would seem to have no limits—if indeed it is a principle and not some convenient post hoc rationalization for discriminatory pricing.

In any event, the Postal Service has realized sufficient net income in FY 95 and FY 96 to meet the Board of Governors' policy objective to restore equity through FY 97 and well into FY . 98. Tr. 5/1361. (Testimony of witness Thompson.) Therefore, the justification of proposed price increases on the basis of the Board of Governors' Resolution No. 95-9 evaporates under scrutiny. As witness Thompson testified,

If the Postal Service believes that additional net revenues will be needed in order to eliminate any possibility of failure to meet the Board of Governors' equity restoration target for FY 97, then the Postal Service should specify how much additional net revenue it needs and file an omnibus rate case.

There is no basis for targeting certain special services to pay what amounts to an insurance premium designed to relieve the Postal Service of the risk that overall net revenues fall below projections in FY 97. The cost of removing that risk has no causal connection with the targeted special services.

Tr. 5/1391-92 (emphasis in original).

The Postal Service's attempt at using vague goals to justify a new net revenue requirement has failed. No logical explanation has been offered to justify selectively targeting the special

services addressed in Docket No. MC96-3 with a new non-attributable net revenue burden.

Extra revenue is being sought solely from those special services that had the bad luck to be ready for reclassification. That is not a rational basis for choosing how to allocate a new revenue burden.

Tr. 5/1389. Raising only those special services fees that are ready for classification reform is opportunistic revenue enhancement for the benefit of other mail categories, whose cost coverages are permitted to remain below cost.¹⁴ "Rate increases

¹⁴ Id. Commissioner LeBlanc, during cross-examination of rebuttal witness Lyons, asked,

When you say demonstrate the need for adjustments, what about the two classes of mail that are below cost?

Tr. 9/3404. In his response, witness Lyons indicated that inclusion of interest income earned on money order float would have shown that money order revenue was approximately \$5 million over cost. Tr. 9/3405. As witness Lyons acknowledged,

I didn't do that calculation. In retrospect, that was an error on my part because I wasn't focusing on money orders.

Tr. 9/3405. However, neither the Postal Service nor witness Lyons submitted data to correct this "error" or to verify witness Lyons' estimates. Clearly, the Postal Service's lack of concern and failure to adequately address the test year net revenue loss of money orders underscores the inconsistent special services treatment. Failure to file the revised data to address concerns raised undermines the credibility and sincerity of witness Lyons' statement.

Witness Lyons indicates that the per piece FY 1996 forecasted COD revenue was \$4.15; cost was \$4.36. The actual per piece FY 1996 revenue was \$4.38; the cost is unknown. Attempts by witness Lyons to compare FY 1996 actual revenues with

for the purpose of increasing general net revenues should be fairly allocated to all classes and services in an omnibus rate proceeding." Tr. 5/1367.

If the Commission agrees that no good reason exists for justifying the new net revenue requirement of \$339.4 million, the Commission could adopt worthwhile proposed classification changes while denying the request for additional net revenues. For, as witness Lyons stated in response to questions from Chairman Gleiman, the proposed classification reform changes would be "the right thing to do" even if the increased net revenues are not accepted. Tr. 2/150.

3. The real policy that explains the amount of additional net revenue sought by the Postal Service in this docket is monopolistic profit maximization

Witnesses Lyons and Thompson seem to agree on at least one point. The Postal Service did not determine in advance how much new contribution to institutional costs it needed and then design rates to generate the necessary revenue. In her written cross-examination, witness Thompson testified that

the new revenue burden is . . . entirely coincidental, being the accidental result of raising rates for the bad luck special services, rather than the result of a

forecasted costs are meaningless. Presently, higher than expected actual per piece revenue has no known relationship between the actual and forecasted costs.

rational process that explained why the Service needed \$340 million.

Tr. 5/1389. During oral cross-examination on his rebuttal testimony, witness Lyons seemed to agree. He stated,

I think we provided [the Commission] a set of rates and a proposal that would meet the needs of restoring the prior year loss recovery here. But this case isn't quite the same as that general rate case where they had the revenue requirement 55 or whatever billion it was to meet at that time.

Tr. 9/3381-82. Witness Lyons as much as admits that there was no predetermined revenue requirement for this case. Indeed, neither he nor the Postal Service has ever disputed witness Thompson's description of the increased revenue requirement in this case as "entirely coincidental."

The specific amount of \$339 million of new contribution sought by the Postal Service in this docket is indeed an accidental outcome rather than a predetermined goal. No witness has testified that the Postal Service reached a conclusion that \$339 million was specifically needed to restore equity and mitigate rate increases. Rather, this case is one of "raise the rates first, count the money later." In witness Thompson's words, this case represents "opportunistic revenue enhancement," Tr. 5/1389, another characterization that the Postal Service has never disputed. In witness Lyons' less colorful words,

[L]ooking at the pricing criteria and the services involved here and when we adjust the prices and looked at that, then we came up with a net income of 340 million.

Tr. 9/3364 (emphasis added).

The driving motivation for the fee increases requested in this case is revealed in the testimonies of Postal Service witnesses Steidtmann and Taufique. USPS-T-2; USPS-RT-2. Both of these witnesses liken the Postal Service to a private retailer. Both of these witnesses cite approvingly the profit-maximizing behavior of such retailers. For example, witness Steidtmann has testified,

Good retail strategy requires making choices. Retailers must maintain a focus on the customer and how best to provide those products which add the most value to the customer and the *highest level of benefits to the retailer.*

Tr. 4/930 (emphasis added). For benefits, read profits, and for highest, read maximum. Witness Steidtmann alludes approvingly to retailers' attempts at "increasing gross margins." Id. at 938. When asked by Chairman Gleiman what the *raison d'être* of a retail business is, Witness Steidtmann replied, "For the larger public companies [comparable to the Postal Service], it will be to make money, to *maximize the return to the shareholders.*" Id. at 974 (emphasis added).

Witness Taufique goes even farther than witness Steidtmann in trivializing the mission of the Postal Service. He likens the Postal Service to "McDonald's or Burger King." Tr. 10/3658. He argues that the impact of fee increases on users cannot be considered undue when alternatives are available at even higher prices. Id. at 3648. This "Let them eat cake" attitude pervades the "market-based" approach to pricing of the Postal Service in this case. There can be no doubt that the Postal Service is attempting to extract as much monopoly profit from special services as it thinks it can get away with.

B. If The Request For New Revenues Is Proper, Then This Is A General Rate Case

The Postal Service is attempting to maintain two logically inconsistent propositions in this docket. On the one hand it argues that it has demonstrated a need for increased general revenues. Tr. 9/3348-49 (rebuttal of witness Lyons) On the other hand, it maintains that the revenue requirement for this case is somehow different from the revenue requirement of a general rate case. See, e.g., Tr. 9/3380-83 (oral cross of witness Lyons). The apparent point of this logic-chopping exercise is to avoid the clear strictures of the Postal Reorganization Act.

Two points are crucial to determining whether the fee increases proposed by the Postal Service comport with the Act. First, the fee increases are in no way incidental to, or the inevitable result of, requested classification changes. Second, the significant new revenues produced by the proposed fee increases will be put to general purposes or will explicitly and deliberately benefit categories of mail whose rates or fees have not been placed in issue by the Service.

1. There is no connection between the proposed classification changes and the proposed fee increases

The Postal Service has often proposed classification changes that necessarily required changes in rates and net revenues. Any proposal to implement new worksharing discounts would involve changes in rates and, possibly, net revenues. A proposal to establish a new service or a new surcharge would require new rates and almost certainly increase net revenues. (Witness Lyons cites Express Mail and the non-standard surcharge as examples of this type of classification change. Tr. 9/3376-77.) Docket No. MC96-3 is not one of these cases. Never before has the Postal Service, in a classification case, sought a net revenue increase of the magnitude requested here. And virtually all of the requested increase in net revenues comes from special services

where no meaningful classification change is proposed. There is no link between the requested classification changes and the requested increase in net revenues. This case is almost entirely an exercise in increasing fees, unrelated to any classification change.

2. The new revenues requested in this case will be used for general purposes or will benefit categories of mail not involved in this case

Five possible uses for the new net revenue generated by the Service's proposals have been discussed on the record of this case. Those uses are (1) restoration of equity, (2) mitigation of future general rate increases, (3) maintaining rate stability, (4) refinancing of outstanding debt, and (5) financing a restructuring of the Postal Service. E.g., Tr. 2/170-3, 8/2770. By the time Postal Service rebuttal witnesses appeared for cross-examination, the number of possible uses for new net revenues appeared to have been reduced to two: restoration of equity and mitigation of future general rate increases. See, e.g., Tr. 9/3348 (witness Lyons); Tr. 10/3640 (witness Taufique). At no time has the Postal Service suggested that the \$339 million of new net revenue it has requested is needed for projects related only to the special services whose fees are being raised. The

only category of mail specifically identified as benefiting from the proposed fee increases is First-Class Mail. Tr. 2/175, 10/3637-40, 3654-55.

3. Whether judged by logic, law, or economics, this is a general rate case in which the Commission must find all rates and fees to be in conformance with statutory standards

As the previous section has demonstrated, the revenues generated by the Service's proposals in this docket will benefit all categories of mail, with the exception of the very categories whose fees will be raised. Purely as a matter of definitional logic, this case is a general rate case because the revenues sought will be put to general purposes.

The Postal Reorganization Act requires rates and fees to be "reasonable and equitable," 39 U.S.C. §3621, and requires the rate schedule to be "fair and equitable," *id.* §3622(b)(1). In addition, section 3622(b) requires the Commission to adhere to the policies of title 39, one of which is, "Postal rates shall be established to apportion the costs of all postal operations to all users of the mail on a fair and equitable basis." *Id.* §101(d) (emphasis added). Assuming that the requested increase in net revenues will be used for legitimate costs of postal operations, it follows that the Commission must find that the

additional \$339 million has been "apportion[ed] . . . to all users of the mail on a fair and equitable basis."

Witness Sherman has explained why economically rational ratemaking requires that all rates and fees be adjustable in a case where substantial new revenue is being sought.

To pursue equitable contributions to institutional costs calls for an omnibus rate case, where comparisons across services are possible. That goal is practically impossible to pursue when only piece-meal proposals are made.

Tr. 7/2275 (direct testimony of witness Sherman). Witness Sherman amplified this statement in both written and oral cross-examination.

All services are not acted upon outside of an omnibus case. Without an omnibus case, some imbalances in relative markups, for example, can be expected to persist that *might have been corrected* in an omnibus case. Changes made in a piecemeal case affect only some services and simply do not afford the comparisons across all services that are appropriate.

With care and planning, it may be possible to achieve reasonably equitable contributions outside of an omnibus rate case and across a series of cases. . . . [A]ppropriate steps have not been taken in this case to achieve such a result.

Tr. 7/2392-93 (emphasis added).

[T]he procedure would be to know what the institutional costs are and to solve for what the markups ought to be and I don't think we are in a position to do that.

We would have to be doing price adjustments for all services in order to do that.

Tr. 7/2459 (emphasis added).

If a recommended decision in this case is to be consistent with logic, law, or economic rationality, that decision must address the rates and fees for all categories of mail.

4. The record of this proceeding does not allow the Commission to find that all rates comport with the standards of the Act

As the proponent of changes in special service fees, the Postal Service bears the burden of proving that its proposals are consistent with statutory standards. The Service has never attempted to do so. As noted above, at least three statutory provisions require the Commission to make findings concerning the reasonableness, fairness, and equity of all rates and fees. In a case where net revenues would increase substantially, it cannot be presumed that the existing schedule of rates and fees will be reasonable, fair, and equitable following adoption of piecemeal proposals for significant fee increases.¹⁵ Because the Service has failed to address essential factual issues in its testimony,

¹⁵ Tr. 7/2459-60 (oral cross-examination of witness Sherman):

Q Can one presume there is no need to change markups for categories that are unaffected?

A I don't think so. I think there might be greater needs for change in other services than in the one we might be focusing on.

the Commission is precluded from making findings necessary to support a recommended decision such as that requested by the Service.

C. No Good Reason Has Been Provided For The Targeted Special Services Pricing Proposal

1. Unfair and inequitable pricing may occur

Witness Lyons attempts to justify Docket No. MC96-3 pricing proposals as generating more equitable contributions from special services to institutional costs. USPS-T-1 at 2. Rates established in an omnibus rate case filing are the result of determining the test year net revenue requirement, evaluating the relative contribution margins for every class and subclass of mail, and ensuring that all factors of the Postal Reorganization Act are considered. By virtue of this process, the resulting rates are fair and equitable.

Witness Sherman states in his testimony,

Th[e] interrelationship among services also makes it desirable to consider entire sets of prices rather than take them up in a piece-meal way, since in the piece-meal approach it is difficult to deal with effects on services that are not under consideration.

Tr. 7/2278-79. The Postal Service does not follow this course of action in Docket No. MC96-3, since its proposal fails to address

services and mail classes and subclasses not under consideration. No explicit plan for future proposals has been articulated, as prescribed by witness Sherman. Id. at 2279-80. Therefore, it is impossible to view the Postal Service's intended pattern of future price-cost relationships over time, the importance of which is explained in witness Sherman's testimony. Id. at 2280. Witness Lyons' attempt to justify the rate increases on the grounds of generating more equitable contributions is highly suspect.

If the Commission endorses the Postal Service's actions in Docket No. MC96-3, then the Postal Service will be given the opportunity to choose (probably unfairly) those mailers at risk of a rate increase and those mailers who will be sheltered from rate increases. Tr. 5/1386. The likely outcome is unfair and inequitable pricing practices, with a propensity to favor large influential customers at the expense of small, silent ones.

2. Special Services are arbitrarily and capriciously denied the goal of contribution neutrality

Docket No. MC95-1, the initial classification reform case, included the goal of contribution neutrality:

This contribution neutrality goal was established because this Request [Docket No. MC95-1] is not intended to be a revenue case, nor an opportunity to

challenge, change, or improve on the Commission's conclusions drawn from the record in Docket No. R94-1.

Tr. 5/1417. In Docket No. MC96-3, the Postal Service abandons the earlier goal of contribution neutrality. The Postal Service states, in its Docket No. MC96-3 Request at 3,

This filing is unusual in that it would have the effect of increasing net revenue for the Postal Service, outside of an omnibus rate proceeding.

The initial classification reform proposal, part of an "ongoing, evolutionary process which w[ould] continue over the course of the next few years," was contribution neutral.

Tr. 5/1415. The Postal Service's substitution of a new goal—net revenue enhancement—for the contribution neutrality goal, during the classification reform process, is unfair. The test year before rates cost coverage for each special service under review is 100 percent or greater. Tr. 5/1466. However, two special services excluded from this docket, money orders and COD, have cost coverages below 100 percent. Apparently, special service rates are not being increased to correct cost-coverage deficiencies. Any claims to the contrary are clearly exposed as false by the two examples of special services sheltered from rate increases. No good reason has been advanced to justify altering the initial goal of contribution neutrality. What changes to the

classification reform framework will occur next? Clearly, the Postal Service's actions are unpredictable and thus, arbitrary and capricious.

3. The Postal Service's profit-maximizing motives in this case set the stage for discriminatory pricing

Witness Lyons attempts to justify the net revenue request of \$339.4 million by alleging that demand-oriented pricing had previously been deferred.¹⁶ USPS-T-1 at 6. However, witness Lyons also states that the Postal Service has not considered using a similar pricing strategy for other postal products or special services not represented in this docket. Tr. 2/67, 105-113.

Increasing special service rates to an "appropriate pricing level" results in additional net revenues of \$339.4 million. Id. at 149. The Postal Service never explains how it determined an "appropriate pricing level" for special services. However, during oral cross-examination, the Postal Service asked witness Thompson if the higher rates charged by commercial mail receiving agents (CMRA) could justify a Postal Service rate increase.

¹⁶ In his testimony, witness Lyons defines demand-oriented price adjustments as those that place emphasis on how sensitive customers are to a price change.

Witness Thompson replied that profit-maximizing organizations would likely think it sufficient justification. Tr. 5/1504.

The Postal Service should not behave as though it were a private profit-maximizing organization. As witness Sherman testifies,

A public enterprise with monopoly power may not fully use its power by setting profit maximizing price levels, because it is charged with serving the public. At any time it might be possible, however, for such an enterprise to exploit its monopoly situation in a particular market by raising its price there.

Tr. 7/2355. The Postal Service cannot justify increasing its fees to match higher competitors' prices.

While fee increases for profit-maximizing purposes are improper, under certain circumstances price increases may be appropriate. For example, if the Postal Service had presented new costing data, identified mistakes in previous costing methodologies, or produced evidence of major technological advances, fee increases might have been justifiable. However, no such evidence has been presented in this proceeding. The Postal Service has failed to justify using demand-oriented pricing solely on those special services under current review. Consequently, the stage has been set for discriminatory pricing.

4. Small low-volume mailers will suffer from the Postal Service's favoritism

In its Docket No. MC95-1 Request, the Postal Service expressed the hope that its contribution neutrality goal would avoid the "inter-class cost coverage disputes that generally occur in omnibus revenue cases." Tr. 5/1417. Apparently, the benefits of contribution neutrality are only offered to large, favored mailers because those mailers (who tend to be well-organized and well-funded) are more likely to dispute unfavorable cost coverages. During oral cross-examination, Commissioner LeBlanc expressed concern about the selectivity of the price increases in this case. He indicated that selective price increases may avoid inter- or intra-class cost coverage disputes. Id. at 1509. His observation was correct. Participation in this proceeding has indeed been limited. It is reasonable to conclude that major mailers are not the primary users of special services; low-volume mailers are. No reason has been provided to justify treating major and low-volumes mailers differently. Thus, low-volume mailers are disadvantaged by the seemingly arbitrary and capricious substitution of the initial classification reform goal of contribution neutrality with a new goal of net revenue enhancement.

D. The Postal Service Misled Intervenor Regarding The
Classification Reform Framework

In Docket No. MC95-1, the Postal Service established a classification reform framework. Included as part of the framework, the Postal Service established criteria and guiding principles to be used when reforming subclasses of mail. The Postal Service's initial approach to classification reform was touted as part of an ongoing, evolutionary process that would continue over the course of the next few years. Tr. 5/1415. Only those classifications that were ready for Commission review and implementation were addressed in Docket No. MC95-1. Other classification reforms would follow. Id. at 1415-16.

The rates proposed in the Docket No. MC95-1 Request were designed to be contribution neutral because the Postal Service had not intended that docket to be a revenue case, nor an opportunity to challenge, change, or improve upon the conclusions drawn from the Commission's Docket No. R94-1 Opinion and Recommended Decision. The Postal Service had hoped that by using a contribution neutral approach, the parties would avoid inter-class cost coverage disputes that often occur in an omnibus rate case. Id. at 1417. Further, the Postal Service stated,

In this Request, the Postal Service proposes to establish this framework as the basis for current and future classification reforms

Id. at 1414. Docket No. MC95-1 was filed March 24, 1995. Docket No. MC96-3 was filed June 7, 1996, less than 5 months after PRC Op. MC95-1 was issued. The time period elapsed has been less than a "few years." Unless the Postal Service proves otherwise, the classification reform framework established in Docket No. MC95-1 should still be viable for this proceeding.

The goals espoused in witness Lyons testimony can be achieved without altering the classification reform framework established in Docket No. MC95-1. Since the test year revenues for the special services under review in this proceeding are not below attributable costs, increased revenues are not needed. Tr. 5/1466. Net incomes for FY 95 and FY 96 will satisfy the Board of Governors Resolution No. 95-9 through FY 97 and well into FY 98. Thus, new non-attributable net revenues are not required. The \$339.4 million additional net revenues result from the fee increases requested by the Postal Service. No good reason has been advanced for abruptly dropping the goal of contribution neutrality.

In the PRC Op. MC95-1 at ii, the Commission noted that

[s]everal parties, however, raise the possibility of a second agenda in this case, one that is obscured by the notion of 'contribution neutrality'. . . .

Perhaps "several parties" were correct in their assessment of the Postal Service's ulterior motive. Clearly, dropping the contribution neutrality goal now allows the Postal Service to unveil "divide-and-conquer ratemaking." As witness Thompson testifies,

Approval of the Postal Service's current request for selective and unjustified price adjustments for the purpose of increasing net revenues encourages similar future filings whose purpose is divide-and-conquer ratemaking.

Tr. 5/1366. In an interrogatory to witness Thompson, the Postal Service erroneously suggests that

'divide-and-conquer ratemaking' [is] based on a perceived inability of the Commission to distinguish between 'justified' selective interim rate adjustments and 'unjustified' ones[.]

Tr. 5/1385. The Commission is very capable of distinguishing between "justified" and "unjustified" interim rate increases. As witness Thompson testifies,

The Postal Service's actions [in this docket] allow it effectively to pick and chose who is at risk of rate increases and who benefits from stable rates. Recent history would suggest that the Postal Service believes that selecting mail categories for 'justified selective' rate increases is a 'management decision,' and that the Commission has no business second-guessing the Postal Service on what is 'justified' or 'unjustified.'

Id. at 1386. However, if the Commission agrees with the Postal Service's position that the contribution neutrality goal was limited to Docket No. MC95-1, then guidelines need to be formulated to insure that all intervenors understand what the "on-going, evolutionary process" of classification reform is.

II. THE POSTAL SERVICE'S STATISTICAL SYSTEMS AND SPECIAL STUDIES ARE SO POORLY DOCUMENTED AS TO RAISE ISSUES OF SUBSTANTIAL EVIDENCE

The Commission's rules of practice require that statistical systems be appropriately documented. 39 C.F.R. §3001.31(k). The requirement for documentation is neither frivolous nor make-work. In proceedings that must be concluded within 10 months, the amount of time available for understanding and submitting discovery related to the Postal Service's evidence is limited. If participants are to have a meaningful right to a hearing, it is crucial that complex or novel statistical evidence be meticulously and completely documented when a case is filed. And, if the Postal Service is to be believed, all such evidence must be explicitly sponsored by a witness, right down to the most obvious and simple arithmetical calculations.¹⁷ The absence of witnesses who sponsor the fundamental statistical estimates used to produce cost and revenue estimates for categories of mail leaves the Commission facing a substantial evidence problem. The record is now closed, but no witness has sponsored the basic

¹⁷ See, e.g., USPS Motion to Strike Testimony of Witnesses Bentley and Thompson, or in the Alternative, for Production of a Commission Witness, November 14, 1996, at 2.

evidence needed to evaluate the accuracy and reliability of the Postal Service's cost and revenue estimates.

The most fundamental documentation one should expect for a statistical sampling system is a clear and accurate description of the sample design, estimation methodology, and measures of sampling error associated with estimates.¹⁸ With ongoing systems, sufficient documentation should be provided to allow comparisons of the sample design and estimate reliability over time.¹⁹ Unfortunately, this is the sort of information lacking from the initial documentation provided by the Postal Service. For some systems, the documentation contained no information on universe size, sampling rates, or even sample size. Some of this basic required documentation has been provided by the Postal Service in response to discovery requests, and some remains missing even at the close of the official record. But even in the case of information provided late, no witness sponsors it.

¹⁸ These are specifically required by the Commission's Rules of Practice. 39 C.F.R. §3001.31(k)(2).

¹⁹ This is particularly important for the Postal Service's ongoing cost sampling systems because the Commission is not routinely informed of the details of estimation or design changes as they occur. A comparison of sample sizes, design changes, or estimate reliability is often the only way the Commission learns whether estimate quality has eroded over time.

A. The Postal Service's Market Research Is Deficient

Postal Service witness Ellard sponsored a market research study to measure consumer reaction to potential post office box fee increases. USPS-T-6 at 1. Unfortunately, this market research ignored issues related to nonresident boxholders and the reactions of nonboxholders to rate changes. The estimation formulas were largely undocumented until well into the discovery process, and doubts remain about the reliability of estimates produced. While the survey is not completely uninformative, it lacks the solid foundation on which to base a rate proposal.

1. The market research failed to test the nonresident fee, yet projected nonresident accept rates

A central feature of the Postal Service's post office box rate proposal is the nonresident surcharge. It is therefore quite surprising that the market research tested no special surcharge rates on respondents who classified themselves as "nonresidents." How is it possible that a market research instrument designed to explore market reaction to a rate proposal would neglect to test reaction to the nonresident surcharge? The answer to this question is simple: the Postal Service did not inform the contractor (witness Ellard) that there would be such a

surcharge. This is explained by witness Ellard during his cross-examination by the OCA:

Q Did your market research test nonresident fees on respondents who believed they were nonresidents?

A No, it did not.

Q Please explain why your market research did not test various nonresident fee levels on respondents who believed they were nonresidents.

A It was never included as one of the specifications of the research.

Q At the time you were commissioned to do the research, were you aware that a surcharge would be placed on nonresidents?

A No, I was not.

Q And during the time you were designing the sample and the questionnaire, were you aware that there would be such a surcharge?

A No, I was not.

Tr. 2/393.

Witness Ellard also confirmed that it is possible that the nonresidents would react differently to their tested fees if they knew that a further special fee would be applied to them. Tr. 2/394. This means that the nonresidents would have different accept rates for each of the three tested fees and, consequently,

different price elasticities.²⁰ However, since the nonresident fee was not tested, separate elasticities could not be computed, and the same accept rate behavior was used for residents and nonresidents alike.²¹

2. The market research cannot even estimate the proportion of customers who would be nonresidents

Even though the market research was not designed to test the proposed nonresident fees, a single question was asked to attempt to determine the respondent's residency status.²² Unfortunately,

²⁰ An unlikely example of this is provided by witness Lyons: "If they [nonresidents] were told that part of the increase reflected a non-resident fee, they would be reminded of the extra value they receive from being able to choose a box away from their residence." Tr. 8/3012. It is a bit far-fetched to believe that higher fees will cause nonresidents to perceive higher value of their box service and consequently to be more content with a special surcharge.

²¹ It is interesting to compare this use of one elasticity for different populations with the Postal Service's position regarding OCA witness Callow's use of one elasticity for both price decreases and price increases. The Postal Service disapproves of witness Callow's use of market research elasticities for nonboxholders, because it believes that their response to price changes would differ from boxholders. On the other hand, the Postal Service has no difficulty in using market research elasticities to predict volume changes for nonresidents—even though the nonresidents would likely respond differently to the proposed increase if they knew they would be subject to a new surcharge.

²² Question 1a asks "(Do you reside / Is your primary place of business) in the same ZIP Code as the town where you obtain box service?" Page 17, SSR-111.

little useful information was produced from this question because its wording was ambiguous and the respondent's residency status could not be determined from his response. All that could be determined is an "understanding of the proportion of boxholders who believed their boxes were in a ZIP Code other than that of their home address." Tr. 2/345. It is not likely that the final implementation language for a nonresident fee would only impose the fee on boxholders who believe that they are nonresidents. Tr. 5/1532.

The reality is that the nonresident survey question adds virtually nothing to a determination of how many boxholders could be affected by the nonresident fee. Witness Ellard summarized by stating that "we don't even know what a nonresident is from this study." Tr. 2/393.

3. No serious effort was made to determine how potential boxholders would react to price changes

Any change in the post office box fees could affect all categories of potential boxholders as well as current boxholders. Clearly, a change in box fees could affect whether a potential customer would remain on a waiting list for a box. A fee increase could open up box vacancies (some existing customers may leave in the face of fee increases) and some customers on the

wait list could remove themselves from the list. Potential boxholders, regardless of whether on a waiting list, might even opt for a CMRA box.

If box availability is indeed a serious problem, as claimed by the Postal Service, then the behavior of potential boxholders (on waiting lists or not) is critical to projecting volumes at new fees. This is probably why the Postal Service required a study of persons on waiting lists as part of the market research project.²³ Unfortunately, useful waiting list market research results were not produced.²⁴

Witness Ellard explained on cross-examination that useful waiting list information could have been produced using market research techniques. He could even have tested nonresident surcharges on the waiting list nonresidents. Tr. 2/390. Witness Ellard also explained the technicalities of how this might be done by searching for places that would be likely to have waiting lists. Tr. 2/391-92.

One reason advanced by the Postal Service for proposing nonresident surcharges was that they would have a positive effect

²³ See the Statement of Work at pages 2-3 of SSR-111.

²⁴ Witness Ellard's interrogatory responses indicate that the data actually collected regarding waiting lists are not suitable for any inferences. Tr. 2/348 and 362.

on waiting lists. USPS-T-7 at 25. This justification could have been backed up by market research evidence, but it was not. Tr. 2/364. Consequently, any arguments for the establishment of nonresident surcharges based on presumed effects on waiting lists should be disregarded.

4. The estimation documentation for the market research study was inadequate until three months into the proceeding

The estimation documentation of the market research study consisted of a three page overview titled "Weighting Of The Survey Data" provided in library reference SSR-111. That section contained several incomplete or misleading formulas. The largest omission in documentation of the estimation process was the lack of details regarding witness Ellard's "post-stratification step" of estimation. Page 53 of SSR-111 provides just one formula, and a table of box renters by tier and box size as its "post-stratification" documentation.²⁵ The initial documentation did not even include copies of the programs that performed the post-stratification step. On August 9, 1996, the Postal Service provided the programs (three programs totaling close to 300 lines

²⁵ This formula included the quantity " D_{rzt} ," which was not defined elsewhere. Surprisingly, D_{rzt} actually does not depend on t (the tier), but does depend on z (the z -th PSU). Tr. 2/338-39.

of SAS program code) used to post-stratify the market research data as SSR-133.

The post-stratification process was not the only poorly documented aspect of estimation. For example, the design-based survey weights contained large (unavoidable) variations. To reduce estimate variances, the weights were "trimmed." SSR-111 at 52. However, the documentation gives no details about the trimming algorithm or formulas. Finally, in an interrogatory response, witness Ellard provided additional details (although no formulas). Tr. 2/339. A basic evidentiary building block is thus missing from the record. According to the arguments of the Postal Service, the Commission cannot base its findings on any evidence that ultimately relies on the missing trimming algorithm.²⁶

²⁶"To the extent the Commission's library references are not, and, under applicable legal standards and Commission rules, may not be relied upon as evidence, all testimony of witnesses Bentley and Thompson, (and, if applicable, of witnesses Collins and Sherman), which make reference to and rely upon, these library references, may not be admitted into evidence." November 14 Motion, at 5 (footnote omitted). The trimming formulas or algorithms were not provided in a library reference or by a Postal Service witness. Thus, the results of trimming are not evidence, and all references to the results of trimming cannot be relied on by the Commission—at least according to the Postal Service.

The documentation also states that "cross-examination" of final weights is typically performed as the final step of weighting the data. SSR-111 at 51. No details regarding this "cross-examination" were provided in SSR-111. In response to an interrogatory concerning this process, witness Ellard states that "cross-examination" of weights was done after computation of weights and that it was a manual process. Whatever actually occurred during that "cross-examination" remains a mystery. Again, the Commission is precluded from making findings based on any evidence that utilizes "cross-examination" of weights, at least according to the Postal Service.²⁷

5. The reliability of market research estimates remains unknown

The sampling error formulas for the market research estimates are based on use of a quantity referred to as the Design Effect.²⁸ The formula presented at page 73 of SSR-111 for

²⁷ "It is bad enough that the mechanics were left unexplained, but there is absolutely no explanation why this adjustment was made." Supplemental Comments of USPS to Motion to Strike Major Mailers Association Witness Bentley's New Analysis, November 21, 1996, at 4 (emphasis in the original). This comment could equally apply to the "cross-examination" of weights.

²⁸ The Design Effect is generally defined as the ratio of the variance of an estimate obtained from a sample to the variance of the estimate obtained from a simple random sample of the same size. See William G. Cochran, Sampling Techniques, Third Edition, page 85.

the Design Effect, δ_d , can only produce values exceeding one. Tr. 2/350-51. This does not agree well with the definition of the Design Effect. In fact, when a sample design is more efficient than simple random sampling, the value for the Design Effect needs to be less than one.²⁹ Since witness Ellard's sampling errors are based on a Design Effect formula that cannot produce legitimate values of the Design Effect, the validity of the sampling errors remains questionable. Without valid sampling errors, the reliability of market research estimates cannot be assessed. The Ellard testimony does not meet the required standards of admissibility in rule 31(k)(2)(i)(a) and therefore cannot be considered substantial evidence to support the Postal Service's Request in this docket.

B. Ongoing Statistical Cost Systems Documentation Was Incomplete Or Incorrect As Filed

The testimony of Postal Service witnesses Patelunas and Lyons relies heavily upon the ongoing statistical revenue and cost systems. Unfortunately, even the most rudimentary sample design documentation was lacking from the initial filing of MC96-3, and some remains missing even at the close of the

²⁹ This is demonstrated on page 138 of Cochran, 3rd Edition, with sample design producing a design effect of 0.35.

official record for the case. As was the case with market research testimony, basic information needed to establish the admissibility of cost and revenue estimates is missing from the record. Such unsubstantiated estimates cannot be considered substantial evidence to support the Postal Service's Request. The following sections catalog these holes in the initial filing and indicate whether they were eventually filled as a result of OCA efforts to complete the record.

1. IOCS

The In-Office Cost System (IOCS) is generally regarded as one of the Postal Service's flagship statistical data systems.³⁰ Its estimates form the foundation for the Postal Service's cost witnesses in every case before the Commission. It is therefore surprising that the IOCS sample was so sparsely documented in

³⁰ Between R90-1 and R94-1, the IOCS sample design was significantly degraded via aggressive sample size reductions of almost 50 percent. Docket No. R94-1, Tr. 1/190. Further, it turns out that many IOCS sample design features were not adequately documented in the Postal Service's initial filing of MC96-3. In the face of ongoing changes and often poorly documented sample design features, one may wonder how mighty the good ship IOCS really is. On its periodic visits into Commission territorial waters we find the ship cloaked in a dense fog, possibly propelled by nothing more than occasional gusts of warm, Southwest wind.

SSR-90, and that SSR-90 was not sponsored by any witness. The initial sample documentation did not include the following:

- First stage universe size by stratum (office universe),
- First stage sample size by stratum (office sample),
- Office selection probabilities,
- Second stage universe size by stratum (employee universe),
- Second stage sample size by stratum (employee sample),
- Second stage sampling rates by stratum,
- Accurate stratum definitions (including finance number strata and international strata),
- Estimation and variance estimation formulas, and
- Programs used to produce cost c.v. tables of SSR-90.

a. First stage universe and sample size

The initial sample design documentation (SSR-90) contained no information on sample size for the IOCS. It was not until two months into the proceeding that the Postal Service responded to an OCA interrogatory with office universe and sample sizes.³¹ Tr. 8/2945-48. This response was not complete, however, since it combined strata A and B together, providing only 9 CAG strata instead of the 10 referred to in SSR-90. In response to a further interrogatory, the Postal Service provided first stage sample and universe sizes for a total of 11 strata (CAG A/B was broken into 3 groups: CAG A BMCs, CAG A large offices, and CAG B

³¹ This is not meant to imply that the office sample for a given stratum was actually selected from the office universe for that stratum. See the following section of the brief.

"other A/B" offices). As a result of this final disaggregation, universe and sample sizes are still unknown for CAGs A and B separately. Tr. 8/2875-76.

b. Office selection probabilities

The derivation of office probabilities of selection is a complex matter for the IOCS. The original panel of offices was selected some 25 years ago from strata that they do not likely belong to today. To make a complex matter even worse, it turns out that the Postal Service cannot locate the original office frame from which the current IOCS panel of offices was selected. Further, the Postal Service cannot identify which offices are in the FY95 office frame but were not in the original one. Thus, it is not possible for the Postal Service to compute the current office probabilities of selection or to determine how many offices had no chance for selection. Tr. 8/2855-56.

If the offices were resampled each year, this amnesia would not be critical. However, since the Postal Service has made a conscious decision to use a relatively fixed panel of offices, the integrity of that panel rests on how it was selected and what is omitted from the current frame. Since the Postal Service cannot document the first stage office selection process, it

simply pretends that "the sample of offices in each CAG constitutes an equal probability sample." SSR-90 at 17.

At the close of the record for MC96-3, nothing more is known about the first stage selection probabilities for the IOCS than was known on the date the case was filed with the Commission. Converting sample data into valid population estimates requires use of selection probabilities as weighting factors. Without knowledge of actual selection probabilities, it is not possible to develop actual sample weights nor to evaluate the sample weights assumed by the Postal Service.³²

c. Second stage universe and sample sizes

The initial SSR-90 statistical system documentation failed to provide either the second stage universe or sample sizes for the IOCS. It was approximately two months into the case before the Postal Service provided its first table of sample sizes by CAG and craft. Just as with the first stage sampling information, however, this table combined the sample sizes for

³² With cost-based weighting, the probabilities of office selection need not be precisely known if office selection probabilities are constant within current CAG groupings. However, these office selection probabilities are not constant within current CAG groupings. Sample offices in a given FY 1995 CAG could have been originally selected from other CAG groupings, at differing selection probabilities. Tr. 8/2859.

CAGs A and B into one cell. In response to a further interrogatory, the Postal Service provided the second stage sample sizes for a total of 11 strata (CAG A/B was broken into 3 groups: CAG A BMCs, CAG A large offices, and CAG B "other A/B" offices). Even with this additional breakout of the "CAG A/B" cell, it is not possible to determine sample sizes for CAGs A and B separately. Tr. 8/2875-76.

Second stage universe sizes were more difficult to obtain for the IOCS. Since the employee sampling frame changes with each pay period (SSR-90 at 15), a complete tabulation of employee universe counts would require 26 tables. Initially, the Postal Service objected to the OCA's interrogatory requesting this information.³³ On September 27, 1996, the Postal Service provided the IOCS employee universe size for a single FY 1995 pay period. Tr. 8/2806.

d. Accurate stratum definitions

The initial SSR-90 provided less-than-accurate stratum definitions for the IOCS first and second stage strata. The first stage is defined as office selection in SSR-90. It is now clear that the first stage sampling unit is the finance number,

³³ The Postal Service's objection to OCA/USPS-25a was filed on August 19, 1996.

not the office. The Postal Service emphasizes that it has always been a finance number sample. In past years, the distinction between a finance number sample and an office sample may not have been worth noting since the finance number was generally referred to as an office. Tr. 8/2802. However, after the FY 1992 restructuring,³⁴ there was no longer a one-to-one relationship between office and finance number. For FY 1995, there is a distinction between office and finance number.

The second stage sample contained additional levels of sampling strata that were undocumented in the initial SSR-90 documentation. The CAG/Craft strata were apparently further divided into subpopulations or "cost pools" and sampled at different rates. These cost pools (or substrata) are defined by the level of international activity and whether realigned. Tr. 8/2800 and Tr. 8/2871-73. Even with the additional stratification information provided by the Postal Service, the documentation remains unclear on specific definitions for the international strata. For example, with information so far provided, it is impossible to determine which international

³⁴ The "restructuring" refers to splitting mail processing functions from finance numbers that contained both mail processing and customer service. Tr. 8/2945-46.

stratum sampling rate should be applied for a pay location having a specific level of historic international activity.³⁵

e. Estimation formulas

Documentation of the estimation formulas is an essential link between the sample design and the production of estimates based on the sample design and data. This link between sample design and estimate production was missing from the SSR-90 IOCS documentation initially filed.

IOCS estimation for FY 1995 is based on cost weighting factors. The advantage of using cost weighting is that weighted tabulations of the IOCS data now correspond to costs instead of time proportions. Neither the computational formulas nor an explanation of the dollar weight factors is provided in SSR-90. These factors are described in an institutional response to an OCA interrogatory. Tr. 8/2799-800.

Another OCA interrogatory attempted to explore whether the IOCS could still be used to produce estimates of the amount of time spent performing particular activities. The Postal Service response stated, "We have not used the IOCS for these types of procedures. Therefore, we are not in a position to evaluate

³⁵ The Postal Service does not even describe how it measures the level of "international activity." Tr. 8/2870.

them." Tr. 8/2841-42. This statement appears to conflict with the IOCS documentation (SSR-90 at 14, emphasis added), which states:

The In-Office Cost System uses a probability sample of work time to estimate proportions of employee work time spent on various activities, including time spent processing each category of mail and several special services.

Two inconsistent conclusions can be drawn from these two statements: either the IOCS can be used to produce time proportion estimates but the Postal Service is not inclined to explain how to form such estimates, or the above-quoted statement from SSR-90 is incorrect but the Postal Service does not wish to acknowledge this.

f. Variance estimation documentation

Another purpose of the statistical documentation is to provide a means to judge the sampling error of major estimates from the statistical systems. Tables 4-6 of SSR-90 provided c.v. estimates for IOCS cost estimates.³⁶ However, the Postal Service did not provide information on how these c.v.'s were produced. It was more than three months into the proceedings before the

³⁶ The "c.v." or "coefficient of variation" is a measure of relative sampling error for an estimate. It is the ratio of an estimate's standard deviation to the estimate itself.

Postal Service provided programs that were used to produce the reliability estimates.³⁷ Further, the c.v.'s could not be produced with originally filed SSR-22 IOCS data files.³⁸ Lastly, it is possible that the formulas used by the Postal Service to produce sampling error estimates for the IOCS were not even correct.

It appears that all we have for reliability estimates for the IOCS are possibly "lower bounds" for the c.v.'s. This is because it appears that incorrect variance formulas were used to estimate variance for the noncertainty strata. The Postal Service states that the FY 1995 variance formulas for IOCS are basically the same as those used in R94-1,³⁹ and provides a citation to a sampling textbook to add validity to the formulas. Tr. 8/2817-18, 2907. It turns out that the wrong textbook formula is used. The formula given at R94-1 Tr. 1/57 is essentially the following (omitting superfluous subscripts):

$$\text{var}(p) = \frac{1}{m(m-1)} \sum_{j=1}^m \frac{n_j^2}{(n/m)} (p_j - p)^2, \text{ where}$$

m = Number of sampled offices,
 n_j = Number of observations (IOCS tallies) in office j

³⁷ On September 23, 1996, the Postal Service provided these programs as library reference SSR-150. Tr. 8/2824.

³⁸ On September 26, 1996, the Postal Service filed a new FY 1996 IOCS data file as SSR-151. Tr. 8/2825.

³⁹ See Tr. 1/57 of Docket No. R94-1 for the variance formulas used in that docket.

$$n = \sum_j n_j$$

a_j = Number of respondents having a particular characteristic in office j

$$p_j = a_j/n_j.$$

The formula derived from the cited textbook, Cochran (3.33, 3.34), page 66, appears quite similar:

$$\text{var}(p) = \frac{1-f}{n(n-1)} \sum_{i=1}^n \frac{m_i^2}{(m/n)} (p_i - p)^2, \text{ where}$$

n = Number of sampled clusters,

m_i = Number of elements in cluster i (all sampled!)

$$m = \sum_i m_i$$

f = office sampling fraction (assumed negligible)

a_i = Number of elements having a particular characteristic in cluster j

$$p_i = a_i/m_i.$$

The problem with applying this formula from Cochran is that the IOCS is not such a simple sample design. In particular, a very small sample of employee weeks is selected from a particular sample office—nowhere near a complete employee-week census for the sample office! It takes no great insight to notice that estimates would have more sampling error if only a small fraction of employee weeks is sampled as opposed to collecting data for all employee weeks in a sample office.

Since the Postal Service's formula (Tr. 1/57) captures only variance that would be expected if all possible employee weeks were observed in a sample office, all we know for sure is that the variance estimates provided in SSR-90 are too small.

In order to use this formula to evaluate IOCS sampling error, the Postal Service should add one more tremendous assumption to those at page 17 of SSR-90. The assumption would be something like the following:

For purposes of evaluating the reliability of estimates, we assumed that all possible employee observations for a sample office were taken. All possible employee weeks were observed, at all possible instants in time. We further assumed that there were no cases of nonresponse.

2. Carrier Cost Systems

The Carrier Cost Systems consist of one sampling system for city carriers and a similar one for rural carriers. Both these systems are purportedly documented in SSR-90. Unfortunately, just as with the IOCS documentation, the sample design documentation was inadequate.

a. City Carrier Cost System

Fundamental sample design documentation for the City Carrier Cost System was missing from SSR-90, pages 21-36. In particular, the following were not included:

- First stage universe size by PQ and stratum (routes),
- First stage sample size by PQ and stratum (route sample),
- Sampling rates by PQ and stratum
- Effective sample size by PQ and stratum
- Formulas for computing weighting factors
- Estimation weights used by PQ and stratum

- Correct sampling errors reported

- i. Universe and sample sizes by quarter

The documentation for the CCS presented in library reference SSR-90 did not contain the most basic of sampling documentation. This documentation did not include universe sizes, sample sizes or sampling rates by stratum for FY 1995.⁴⁰ In response to discovery requests by the OCA, this documentation was provided by sampling stratum and by postal quarter approximately 2 months into the proceeding. Tr. 8/2941.

- ii. Estimation

The sampling documentation also lacked information describing the estimation methodology for the CCS system. In particular, weighting factors and formulas for creating them were not provided, and estimation formulas were not provided in the initial SSR-90 documentation. The weighting factors and formulas were provided in response to an OCA interrogatory about 2 months into the proceeding, and the Postal Service provided a transcript citation to the last omnibus rate case for estimation formulas. Tr. 8/2941-42.

⁴⁰ See SSR-90, pages 21-24.

Two other estimation issues were explored by the OCA—route attrition and second stage sampling. The CCS sample design allows for second stage sampling (for multi-trip or multi-carrier routes). However, no estimation formulas were provided in the documentation (SSR-90, pages 21-24) to account for this additional sampling. In response to an OCA interrogatory, the Postal Service stated that they do not account for second stage sampling in the CCS estimation process because only a small number of routes would be affected. Tr. 8/2942.

The Postal Service also responded to OCA interrogatories to explain how attrition of sample routes is handled. Since the CCS is a panel survey, it attempts to observe each sampled route each accounting period (13 times) during the fiscal year. Sometimes, a route drops out of sample and needs to be replaced before all 13 observations have been taken. When a route needs to be replaced, it is not done randomly. Efforts are made to preserve the CAG, route type, and number of deliveries. Tr. 8/2729-30. No adjustments are made in the estimation process to account for attrition. Tr. 8/2942.

iii. Sampling errors

The Postal Service's sampling documentation did provide sampling error estimates (both c.v.'s and confidence interval estimates). However, when compared to analogous estimates from FY 1993, there were unusual increases in the FY 1995 c.v.'s.

An interrogatory to witness Patelunas explored the CCS sampling error increases between FY 1993 (R94-1, LR-G-127) and FY 1995 (SSR-90). Tr. 8/2938. The interrogatory was redirected to the Postal Service and the response indicated that the SSR-90 c.v.'s for the FY 1995 CCS estimates were in error. The Postal Service filed a revision to SSR-90 correcting the error on August 12, 1996. The programs that produced these CCS sampling error estimates were provided as library reference SSR-144 on August 28, 1996.⁴¹

b. Rural Carrier System

Just as with the City Carrier System, much of the fundamental sample design documentation for the Rural Carrier Cost System was missing from SSR-90, pages 37-41. In particular,

⁴¹ No programs were provided in support of the CCS c.v. tables of SSR-90 in the initial documentation.

the following documentation was not provided with the initial filing of the SSR-90.

- Universe size by PQ and stratum (routes),
- Sample size by PQ and stratum (route sample),
- Sampling rates by PQ and stratum,
- Effective sample size by PQ and stratum,
- Formulas for computing weighting factors,
- Estimation weights used by PQ and stratum, and
- C.V.'s consistent with FY 1993 c.v.'s.

i. Universe and sample sizes by quarter

The Rural Carrier System (RCS) documentation did not include universe and sample size information or sampling rate information as part of the sample documentation for FY 1995. This information was eventually provided by the Postal Service in response to an OCA interrogatory to witness Patelunas. In addition to the first stage universe size, sample size, and sampling rates, information was also provided on the extent of second stage sampling of rural routes that serve more than one office. For the second stage sample, no information was provided to indicate the extent of second stage sampling performed separately for first stage strata.⁴²

⁴² Tr. 8/2972-73. For example, in PQ 1 FY 1995, the first stage sample size by stratum was 1155 for stratum 1C and 2 for stratum 2C. A total of 67 of these sample routes served more than one office and were subject to second stage sampling. The

ii. Estimation

Information on weighting and estimation formulas was not provided in the SSR-90 documentation. The Postal Service provided an interrogatory response that included weighting factors for FY 1995. The response also indicated that the estimation formulas and the formulas for computing weighting factors were presented by witness Bailey in Docket No. R90-1. Tr. 8/2792-93. Even if the R90-1 formulas are accurate for FY95, the SSR-90 documentation was incomplete in that it did not specifically state that the estimation formulas from R90-1 were used for the FY95 RCS data. As demonstrated by other ongoing statistical systems, the designs are somewhat dynamic and both the sample designs and estimation methodologies tend to change over time.

In spite of the fact that there was an extra level of sample selection for routes serving more than one office, no adjustments were made to the estimation weights to account for the further sampling. It is surprising that a special weighting factor is calculated for stratum 2C sample routes (affecting only 2 routes per quarter), but that no special weighting factors are provided

breakout of the second stage route sample between the two first stage strata has not been provided.

for the multi-office sampled routes (between 50 and 80 per quarter). In response to an OCA interrogatory regarding the effects of second stage sampling on weighting, the Postal Service simply replied, "There are no effects on the weighting factors for the sample routes that serve more than one office." Tr. 8/2973. Of course, there are no effects on the Postal Service's weighting formulas because those formulas ignore second stage sampling.

iii. Sampling errors

The Postal Service's sampling documentation did provide sampling error estimates for the FY 1995 Rural Carrier System estimates in SSR-90, pages 40-41. However, since the documentation of these reliability estimates was missing, it was not possible to determine how the estimate quality had changed from the FY 1993 estimates provided in Docket No. R94-1. In particular, the c.v.'s reported in SSR-90 were considerably smaller than the analogous estimates based on the FY 1993 data. In response to an OCA interrogatory on this discrepancy, the Postal Service explained that the FY93 c.v. estimates reported in library reference G-127 were incorrect due to a programming error. Tr. 8/2975. Since no changes have been made to the Rural

Carrier System's estimation methodology since FY 1992, there is no assurance that the programming errors plaguing the RCS in FY 1993 did not remain for FY 1995. Tr. 8/2974.

In order to determine whether the FY 1995 Rural Carrier estimates were better or worse (in a sampling error sense), the OCA requested that the FY 1993 error be corrected and a useable set of FY 1993 RCS c.v.'s be produced without the programming error. Tr. 8/2823. The Postal Service objected to this request on August 26, 1996.⁴³ Presiding Officer's Ruling No. 12 denied the OCA's motion to compel a response to OCA/USPS-36a-b, stating that "neither rural carrier nor transportation costs are central aspects of the Postal Service request in this docket and therefore the benefits this information might produce do not justify the time and expense involved in correcting or creating profiles of past cost measures." Presiding Officer Ruling No. 12, page 4.

While it is true that the current reclassification request is based on FY 1995 data, it is also true that information to

⁴³ The Postal Service claimed burden and relevance in their objection. In particular, the Postal Service stated that FY 1995, not FY 1993, was the base year for this case, and that it would take up to 5 person-days to complete the task. Objection of the USPS to Office of the Consumer Advocate Interrogatories OCA/USPS-36(a) and (b), 37(a) and (b), 42(f), 43(f), and Partial Objection to OCA/USPS-47, August 26, 1996, at 1-2.

evaluate estimates based on the FY 1995 data has not been routinely included with cost system documentation. In particular, the FY 1995 Rural Carrier sampling error documentation filed with the Commission cannot even be compared with documentation from FY 1993 to determine whether there has been further erosion of estimate reliability.⁴⁴ If there had been no significant changes to the sample design, and the sampling error computations were valid for both FY 1993 and FY 1995, then there should be no large changes in the reported c.v.'s. This simple check cannot be made with the Postal Service's Rural Carrier System documentation.

3. TRACS

The Transportation Cost System (TRACS) consists of several component sampling systems, each designed to capture costing information from a different mode of transportation. These components are highway, passenger rail, Amtrak, air, and Eagle network.

⁴⁴ Between FY 1989 and FY 1993, sample sizes were slashed and c.v.'s grew by as much as 427 percent. Docket R94-1, Tr. 1/77 and 1/190. In the current proceeding, the Postal service informs us that the FY 1993 c.v.'s were wrong, so we have no idea how quickly the c.v.'s are growing. We don't even know if the FY 1989 c.v.'s suffered from the same programming error as did the FY 1993 c.v.'s.

The documentation of each of these components of the TRACS system was deficient when the MC96-3 request was filed. The "Statistical System Documentation" library reference (SSR-90) made no reference to the TRACS system and there was no separate library reference in the initial filing of this docket that documented the TRACS system (analogous to library reference G-106 of Docket No. R94-1). As with the IOCS and the Carrier systems, some of the most basic of sample design documentation did not appear until well into the case.⁴⁵ Examples of this missing sample documentation include:

- Universe size by PQ,
- Primary sampling units sampled by PQ,
- Secondary sampling units sampled by PQ,
- Sample design changes in FY 1995,
- Sampling errors in a format comparable to those of R94-1,
- Programs and formulas for production of sampling errors, and
- Availability and documentation of data files.

a. Universe and sample sizes by quarter

The most basic of sample design documentation was again absent from the materials filed at the start of this case. In fact, the TRACS system was not even mentioned in the statistical

⁴⁵ On August 30, 1996, library reference SSR-143 was filed. This was an update to the G-106 library reference of Docket No. R94-1.

documentation, SSR-90. The universe and sample sizes were made available as a library reference almost three months into the case and only as a response to an OCA interrogatory. Tr. 8/2830.

b. Sample design changes in FY 1995

Cost data systems cannot be evaluated without knowledge of the currently implemented sample design. While this can be difficult when the current documentation is missing, it becomes a hopeless task if the sample design has changed since it was last documented.

For FY 1995, it turns out that there were sample design changes for the highway, freight rail, and passenger air systems, effective PQ 1 FY95. For each of these systems, the cost stratification was removed and replaced with random sampling within each Postal Service district. These sample design changes resulted in modifications to the estimation programs for the affected TRACS systems. Tr. 8/2828-29. This sample design change was not disclosed until August 30, 1996, after the close of discovery on the direct case of the Postal Service.

Although the Commission's rules of practice require notification of changes to these systems 90 days prior to implementation (39 C.F.R. §3001.102(d)(4)), the advance

notification did not occur. The Postal Service claims that changes to the TRACS sample design would not affect the quality of types of data furnished to the Commission. Tr. 8/2893. This claim is simply untrue, as can be seen by comparing sampling errors (a measure of the quality of estimates) produced from the FY 1993 TRACS highway sample with the analogous figures for FY 1995.

c. Sampling errors

Sampling errors for key survey estimates are useful for evaluating the quality of the sample estimates. For an ongoing sampling system, comparison of these sampling errors over time is one way to monitor any improvements or degradations of sample quality. This is why sampling error estimates are central to the documentation of any sampling system.

For FY 1995, useful sampling error estimates were not present for the TRACS components in the initial MC96-3 documentation. Library reference SSR-86 contained no sampling error estimates for the Eagle Network system. Tr. 8/2836. For the TRACS highway, rail, and Amtrak systems, sampling error tables were provided based on only one postal quarter's worth of data. Tr. 8/2832-34, 2836. This was inappropriate for at least

two reasons. Transportation costs were distributed based on four quarters of TRACS data, so the sampling errors provided did not even correspond to the estimates used for costing. Tr. 8/2877. Further, the FY95 PQ 4 sampling errors were not comparable to the FY93 sampling errors provided in Docket No. R94-1, since the FY93 sampling errors were for estimates based on a full year's worth of TRACS sample data.

It is just as important to document how sampling errors are computed as to provide them. The initial documentation filed for TRACS highway, rail, and Amtrak contained PQ 4 sampling error tables attached as "output" to programs that did not actually produce those tables. Tr. 8/2832-33, 2836. Further, no formulas were provided to show how these estimates were produced. In response to OCA interrogatories, the Postal Service filed a library reference which included sampling error formulas and estimates that could be compared to those of R94-1.⁴⁶

A brief comparison of the FY 1993 and FY 1995 c.v. estimates does not inspire confidence in the new estimates produced for FY 1995. For example, the FY 1995 inter-SCF highway c.v.'s aren't even in the same ballpark as the c.v.'s from FY 1993. With the exception of third-class nonprofit presort, all the c.v.

⁴⁶ See library reference SSR-143, filed August 30, 1996.

estimates for FY 1993 are at least ten times larger than those produced for FY 1995.⁴⁷ A similar relationship holds for the other TRACS highway components.

The TRACS rail and air c.v.'s did not demonstrate the same phenomenal decreases that were seen for TRACS highway estimates. For example, TRACS rail c.v.'s for First-Class letters and parcels increased from 2.3 to 6.5 between FY93 and FY95 and c.v.'s for parcel post increased from .02 to .09 during that period.⁴⁸

It is unlikely that this unbelievable reduction in reported sampling error for TRACS highway can be attributed to the design revisions implemented in FY95. It is more likely due to errors in TRACS estimation programs. As noted by the Postal Service, the sample sizes did not change but the estimation programs did. Tr. 8/2827-28. Further, even though the same sample design changes were made for the TRACS highway, rail, and air systems, the c.v.'s for estimates produced by the rail and air systems do not change in the same direction or magnitude as for highway.

⁴⁷ See page 16, SSR-143 for the FY 1995 sampling errors and Docket No. R94-1 library reference G-106, page A, for the FY 1993 sampling errors.

⁴⁸ See SSR-143 and R94-1 library reference G-106.

d. Availability and documentation of data files

The TRACS data files were submitted as library reference SSR-84 for each of the TRACS component samples. However, these files are not particularly useful for analysis. The Postal Service is able to provide large data files that are easily used by Commission staff when needed.⁴⁹ However, the files provided for TRACS are less than useful.

There has been significant motions practice regarding provision of TRACS data and its relevance to the special service proposals of this docket. From late-filed statistical documentation (SSR-143), it is known that there have been sample design and estimation changes in the TRACS system effective with PQ1 of FY95. It has also been demonstrated that the statistics measuring quality of the TRACS estimates defy reason (compared to those of FY93). Even though special service proposals may not be tightly linked to transportation costing, these sample design changes and anomalous estimates of quality measures first appear in this docket. Since the only opportunity to investigate postal data systems is during the discovery process in Commission

⁴⁹ For example, the Postal Service provided the FY 1995 City Carrier data set as a SAS file in SSR-36.

proceedings, it is appropriate to scrutinize data underlying one of the five major postal data systems.

The first data omission was the lack of data for the full fiscal year. This was the situation for the TRACS highway, rail, and Amtrak samples. This meant that under the best of circumstances, it would not be possible to analyze FY95 transportation cost data. Tr. 8/2832-34, 2836.

A second difficulty in accessing the TRACS data was related to the fact that it was provided on 9 track tapes. This may be appropriate for mainframe data analysis or for data too unwieldy to be transported otherwise. Unfortunately, it erects needless barricades to use of the data in a PC environment by the OCA, other intervenors, and the Commission. The OCA repeatedly requested provision of the TRACS data on a PC friendly medium (such as CD ROM or diskette), but these efforts were vigorously opposed by the Postal Service.⁵⁰ As pointed out in an OCA interrogatory,⁵¹

⁵⁰ See interrogatories OCA/USPS-57, 65-67, and 68. These requests were opposed by Postal Service objections. Objection of the USPS to Office of the Consumer Advocate Interrogatories OCA/USPS-57, 62, 65(d), (e), (f), and (h), 66(a), (c)(ii), 67(a), (c)(ii), and 68, and Partial Objection to OCA/USPS-65(a), September 9, 1996.

⁵¹ See footnote 1 to OCA/USPS-65h. Note that the Postal Service's version of interrogatory OCA/USPS-57 did not replicate

For example ALAHQN.HIGHWAY.PQ495.SURVEY.TEXT is about 8.9 Megabytes in size, but compresses (using PKZIP) to only 367K. The entire PQ495 highway data file would only occupy about a quarter of a standard 1.44MB diskette. One diskette could contain all four quarters of TRACS highway data.

It is clear that there was no real barrier to providing the entire FY96 TRACS highway data set on a single diskette.

Another obstacle to access to TRACS data files was the fact that many of the files were not the ones actually used by the Postal Service. It turns out the Postal Service first created "SAFE" files from the actual TRACS data files. These "SAFE" files were sanitized versions with commercial data suppressed and the record length significantly decreased. In a separate step, the "SAFE" file was then copied to a different file name and provided to the Commission as library reference SSR-84. Tr. 8/2882-87. The OCA was still concerned that the TRACS programs provided to the Commission would not execute properly on the "SAFE" files. In response to this concern, the Postal Service filed SSR-153 which was a SAS log demonstrating that the Postal Service could execute a TRACS highway program (TRACS.EXPAND.HWY.PQ495.CNTL(SURVEY)) on the corresponding "SAFE"

the footnote. See Tr. 8/2883. Objection filed September 9, 1996.

file. Tr. 8/2911. Unfortunately, SSR-153 was a mainframe SAS log and shed little light on whether the programs would operate correctly in the Commission's PC environment.

Unlike the highway and rail data files, the data files for the TRACS air system were provided as SAS data sets on the SSR-84 9 track tapes.⁵² This poses an extra level of difficulty for PC-based data analysis because the SAS files were created on Postal Service mainframe computers. The Postal Service is aware of special procedures that must be taken to produce transport formatted SAS data sets, since it was able to produce SAS data set transport files for the CCS system in this docket. The OCA requested that any TRACS SAS data sets be provided in a format useable by PC SAS, just as the Postal Service had done earlier in this docket for the CCS "z file" of SSR-33.⁵³ Unfortunately, useable SAS data sets were not provided for the TRACS Air system.

⁵² Library reference SSR-84 contains the "safe" copies of input files used for the TRACS Air programs of LR-SSR-83. The documentation at page 3 of SSR-83 describes the TRACS Air data files for PQ 4, FY 1995, stating, "Each SAS data set on these 16 input files contains one week of air transportation data." (Emphasis added.) The fact that the input data are indeed SAS data sets is confirmed for the first week of PQ 4 data by examining line 4 at page 12 of SSR-83. That statement inputs, or "sets" the first SAS data set in the program's first data step.

⁵³ See OCA/USPS-57b. The Postal Service objected to this discovery request, stating that "the files contained on the LR-SSR-84 data tapes are in ASCII text format, which can be read into PC SAS after the data are transferred from the tapes to a

III. THE POSTAL SERVICE'S FEE PROPOSALS CONTAIN SIGNIFICANT DEFECTS

A. Post Office Box Fees Should Be Changed In This Case Only As A Last Resort

The existing post office box delivery group fee structure is irrational and unfair. As currently configured, the existing delivery group structure allocates higher costs to rural areas, and lower costs to urban/suburban areas, resulting in unfairly higher box fees in rural areas. The existing group structure should be reconfigured to better reflect costs before recommending higher fees for post office boxes.

If the Commission finds that the record is not sufficiently complete to permit re-configuration of the existing delivery group fee structure, it should maintain the status quo and not change any post office box fees until such time as box fees can be considered in the context of an omnibus rate proceeding. Current fees reflect the Commission's consideration of the

PC." September 9, 1996 motion at 3 (emphasis added). This is false because the TRACS Air files are not ASCII text files. See previous footnote. If, indeed, the Air files provided by the Postal Service are ASCII text, then they are useless. The SAS Procedures Guide warns, "Be sure to send the transport file in binary format to avoid ASCII to EBCDIC translation (or vice versa)." SAS Procedures Guide, Version 6, Third Edition, page 208.

relevant pricing factors of the Postal Reorganization Act, while maintaining a positive contribution to institutional costs.

However, should the Commission determine that changes in post office box fees are warranted, the OCA's proposed box fees are an eminently better choice than the Postal Services. The Postal Service's proposed post office box fees perpetuate disparities in cost coverages by group and box size that have no defense on this record. Moreover, the Postal Service's proposed classification change to impose a surcharge on nonresident boxholders is wholly defective and must be rejected.

1. The Existing Group Fee Structure For Post Office Boxes, Based Upon The Type of Carrier Delivery, Is Irrational And Should Be Re-Configured Before Adopting New Box Fees
 - a. The grouping of post offices by city and rural delivery unfairly imposes higher fees on boxholders in smaller post offices

The Postal Service's proposed post office box fees are based upon a cost structure that is no longer reasonable. The grouping of post office by type of carrier delivery reflects neither cost differences in varying service areas nor urban/rural distinctions. As a consequence, the Postal Service's proposed fees based upon this cost structure are unfairly higher for boxholders in smaller post offices.

Postal Service information suggests that costs vary with post office location, and costs are generally higher in urban and suburban locales and lower in rural areas. When average rental costs per square foot are examined for post offices classified by cost ascertainment grouping (CAG),⁵⁴ there is an almost uniform decline in the average rental cost as the size of the CAG declines. Tr. 8/2916. Despite Postal Service efforts to discount the relationship of CAGs and costs, Tr. 9/3431, previous Postal Service studies confirm "that CAG A and B offices tend to be located in higher-rent urban areas, while CAG K and L offices tend to be located in lower-rent rural areas."⁵⁵

The existing structure, based upon delivery groups, is illogical. The use of city carrier delivery and rural delivery as a proxy for urban/suburban and rural areas, respectively, is no longer valid. Even the Postal Service acknowledges that "[a]s suburbia expands or exurbia begins, . . . some of these offices aren't necessarily rural anymore by traditional definitions." Tr. 9/3398.

⁵⁴ "A method of classifying post offices according to volume of revenue generated." Glossary of Postal Terms, Publication 32, April 1988, at 16. Post offices are classified from A to L, with CAG A post offices generating the highest revenues and CAG L offices the least. Id.

⁵⁵ Docket No. R90-1, USPS Library Reference F-183, at 15.

Each delivery group, except Group IA, contains many different CAG level post offices. In addition, the same CAG level post offices are found in several different delivery groups.⁵⁶ This suggests that groupings of post offices by type of delivery are not homogeneous cost groupings. Consequently, fees based upon such cost groupings penalize boxholders in lower-cost rural areas, while benefiting boxholders in more costly urban and suburban locales.

Space provision costs are a major component of box costs, accounting for 35.1 percent of post office box attributable costs in the test year. OCA-LR-3 at 6. The averaging of higher cost, high CAG post offices with lower cost, low CAG offices has the effect of raising attributable costs for boxes in smaller offices and reducing box costs in larger offices. Post office box fees based on this average cost would likely mean box fees that are higher than necessary in smaller CAG level post offices, while box fees are lower than necessary in larger CAG offices.⁵⁷ Given

⁵⁶ See OCA/USPS-88, Exhibits 1 and 2. Please note that the Postal Service did not include Exhibits 1 and 2 in its response to OCA/USPS-88; therefore the exhibits are not included in the transcript of this proceeding. Tr. 8/2914-17.

⁵⁷ Ironically, this effect undermines the Postal Service's goals in the instant proceeding. It is reasonable to assume that shortages are more prevalent in larger metropolitan areas where demand and costs are highest. Under-inclusion of space provision costs on which box fees are based for such locations exacerbates

this situation, it is possible the Postal Service's proposed fee increases are unnecessary altogether.

- b. A more rational (and equitable) fee structure would group post offices according to CAG to better reflect costs in the pricing of boxes for urban and rural areas

The Commission should redefine "groups" based upon CAG to better reflect costs.⁵⁸ The proposed redefinition should be undertaken first to see whether any fee increases for boxholders are warranted.

Grouping post offices using rental cost differentials by CAG would constitute a more cost-based fee structure. Four groupings could be developed: CAG A, CAGs B-C, CAGs D-H, and CAGs K-L.⁵⁹ The consequences of grouping post offices in this manner are likely to be higher fees in urban (and suburban) offices and lower fees in rural offices. Docket No. R90-1, USPS Library

the shortages that the Postal Service claims it wishes to correct. Likewise, boxes in sparsely populated, lower-cost rural areas may have lower usage rates that are worsened by unreasonably high fees.

⁵⁸ Other alternatives exist, such as redefining "groups" according to large and small post offices along the lines of the new merit-based pay system for postmasters. "Merit-Based Pay Instituted For Postmasters," AMMA Bulletin (50-96), October 25, 1996.

⁵⁹ These groupings by CAG were proposed in USPS Library Reference F-183, Table 8, at 19.

Reference F-183 at 3. Such a fee structure might even reveal that current fees cover the costs of the truly rural post offices in Group II.⁶⁰

2. There should be no change in current box fees until the existing delivery group fee structure is re-configured

The Postal Service is fully cognizant that there are significant flaws in the existing delivery group fee structure. However, the Postal Service defers to some future date changes in the existing structure rather than use the current classification proceeding to address those flaws.

On rebuttal, witness Taufique pays lip-service to problems in the existing fee structure.

The Postal Service acknowledges that a "one price fits all" approach may not be the most efficient method of pricing post office boxes.

Tr. 10/3650.

He concedes that one problem in pricing boxes is "differences in costs" between facilities in densely and sparsely populated areas. Tr. 10/3662. Such a consideration, as well as demand and

⁶⁰ Such a re-configured fee structure might conceivably avoid Group II fee increases that are viewed "as a form of price-gouging" and permit a more gradual increase in box fees over time. Letter to Honorable Edward Gleiman, Chairman, Postal Rate Commission, from Hugh Bates, President, National Association of Postmasters of the United States, regarding Special Service Reform Proceeding—Docket No. MC96-3, September 25, 1996, at 2.

supply, "could evolve into local adjustments to prices at each facility." Tr. 10/3650.

Witness Taufique asserts that the Postal Service's box fee proposal "is designed to begin taking differences in costs and demand into account." Id. It does not. The Postal Service's words do not match its proposed actions in this proceeding.

Under the Postal Service's proposal, the existing fee structure, based upon whether city or rural carrier delivery is provided, is unchanged. Attributable space provision costs have been allocated to boxes based upon delivery groups as in previous proceedings. Tr. 9/3604; see also Tr. 3/587. As a consequence, because the existing fee structure has not been reconfigured to better reflect costs, references to "demand" considerations are simply a euphemism for higher fees generally and imposition of the nonresident surcharge.

The Postal Service has failed in this proceeding to address the underlying inequity in the existing delivery group fee structure for post office boxes. Without such changes, the Postal Service's stated objectives of "taking differences in cost and demand into account" can't be achieved. Consequently, the Postal Service's inaction only permits higher fees on a *national* basis for problems that are really *local*.

The Postal Service should not be "rewarded" for its failure to address these problems in this proceeding with a Commission recommendation of higher fees for post office boxes. The best course of action is to make no changes in box fees until the Postal Service addresses the underlying problems.

3. If the Commission decides to adjust post office box fees, it should eliminate disparities in cost coverage by group and box size
 - a. The Postal Service's proposed box fees perpetuate significant differences in cost coverages by delivery group

Under the Postal Service's fee proposal, there are significant differences in cost coverage by delivery group. The Postal Service makes no defense of these differences, and they are not justified.

The testimony of OCA witness Sherman presents cost coverages by group that "show a surprising reliance on high revenues from delivery area I-C." Tr. 7/2300. Group IC exhibits the highest cost coverage at 194 percent (without the nonresident surcharge); the next highest average is 149 percent in Group IB. Id. By contrast, post office box fees in Group II are priced well below apparent cost, with a group cost coverage of 73 percent. Id.

Differences in cost coverage by delivery group are also a feature of current box fees. Under current fees, both within Group I and between Groups I and II, there are large, unexplained differences in cost coverage. Tr. 5/1541. Group IC has a much higher cost coverage than Groups IA and IB. The cost coverage for Groups IA, IB and IC are, respectively, 111, 110 and 143 percent. Id. As a consequence, Group IC bears a proportionally larger institutional cost burden. Conversely, Group II, with a cost coverage of 33 percent, apparently pays no institutional costs at all.⁶¹

These large differences in cost coverage by delivery group are driven by a misalignment of fees with costs. A comparison of per box costs in the test year before rates reveals similar costs for the same size box in Group IC and Group II. See OCA-LR-3, at 1. However, a comparison of current fees reveals a large disparity between Group IC versus Group II fees for the same size

⁶¹ Id. However, this assumes that costs have been properly attributed to the rural component of Group II. As discussed previously, *supra* at section III.A.1.a., proper re-configuring of delivery groups might avoid all or part of the fee increase the Postal Service proposes for Group II boxes. However, since data were not available to OCA for a more logical fee structure based on CAG level, OCA reluctantly acquiesces in the Postal Service's proposed doubling of the fees for Group II boxholders.

box—a difference ranging up to 400 percent.⁶² Such fee disparities, and the resulting differences in cost coverage, cannot be supported by the generally comparable post office box and other postal services offered by rural delivery and city delivery offices.⁶³

In the absence of re-configuring delivery groups by CAG, modification of the Postal Service's proposed fees for post office boxes is essential to redress the disparity in cost coverages by group, and the reliance on Group IC boxes for a disproportionately large contribution to institutional costs. OCA's proposed box fees virtually eliminate the disparity in cost coverage within Group I, and reduce the disparity between Groups I and II.⁶⁴

- b. The Postal Service's proposed box fees perpetuate significant differences in cost coverages by box size that are counter-productive

Under the Postal Service's proposal, there are considerable variations in cost coverages by box size that are not adequately

⁶² Tr. 5/1539. For box size 1 in Group IC, the fee is 400 percent larger than the same size box in Group II.

⁶³ Tr. 5/1545. See also USPS-T-7 at 35, for the proposition that "rural delivery offices offer box and other delivery services similar to city carrier delivery offices," and exhibit similar costs.

⁶⁴ See *infra* at section IV.A.4.a.

justified. The testimony of OCA witness Sherman shows the variation by computing the (weighted average) cost coverage by box size. Tr. 7/2301. That testimony reveals the disproportionate reliance on box size 3, with the highest average cost coverage of 153 percent, for the contribution to institutional costs. Id. Cost coverages decline from that high level moving either to the smaller or larger boxes. Tr. 7/2301. The consequence of this disparity in cost coverages is that boxholders are encouraged to use the smallest and largest box sizes. Tr. 7/2301.

A similar condition is present under the current fee structure. Comparing the same box sizes across delivery groups reveals that the highest cost coverages are generally found in size 2 and 3 boxes. Tr. 5/1541.

The Postal Service justifies only the lower cost coverage flowing from smaller fee increases for the larger boxes. It is claimed that the lower fees promote the use of the larger boxes since boxholders tend to choose boxes that are too small, causing additional costs and mail accumulation problems. USPS-T-7 at 19-20.

However, the proposed fees "now encourage[] the use of the smallest boxes through lower cost coverages, as well as the

largest boxes, so the goal of encouraging use of larger boxes is not consistently served." Tr. 7/2301. Encouragement of the use of the smallest boxes by below-average cost coverage is counter-productive and contributes to box shortages. The Postal Service's proposal perpetuates this reliance on the middle size boxes for the largest contribution to institutional costs. To consistently encourage the use of larger boxes, the Postal Service's fee proposals should be modified. OCA's fee proposal significantly reduces the disparity in cost coverage by box size.⁶⁵

4. The Postal Service's introduction of market-based costs as a justification for higher fees to expand box service is unnecessary

On rebuttal, witness Lion "addresses an additional reason" to justify the Postal Service's proposed higher box fees.⁶⁶ That is, the "pricing of post office box fees should take into account the market-based space provision costs . . . [as] a financial incentive for local postal managers to install new box sections to meet demand." Tr. 9/3530. The Postal Service's belated reliance on market-based costs to justify higher fees through

⁶⁵ See *infra* at section IV.A.4.b.

⁶⁶ Response Of United States Postal Service To OCA Motion To Strike Portions Of The USPS-RT-3, December 13, 1996, at 5.

pricing, however, is unnecessary as it has the authority (and revenue) to address box shortages wherever they exist.⁶⁷

This record demonstrates that there is no nationwide shortage of post office boxes. Only 5 percent of post offices in the PO Box Study had no boxes available. *Infra* at section III.A.6.c.ii. Nevertheless, the Postal Service proposes to raise all fees to relieve box shortages at comparatively few post offices.

The Postal Service's position that higher box fees are a prerequisite to box expansion is inconsistent with Commission policy. In the Commission's view, "Congress has provided for system growth and renewal through periodic review and repricing, rather than through calculation of economic costs *ex ante* and inclusion of these costs in current prices." PRC Op. R90-1,

⁶⁷ Witness Lion cites the Commission's requirement that "[a]ttributable space provision costs . . . cannot exceed[] book costs." Tr. 9/3544. Nevertheless, he proceeds to derive a TYBR cost coverage of 92 percent from market-based space provision costs. Tr. 9/3545. This is intended to demonstrate a failing in the Commission's treatment of space provision costs. Witness Lion apparently feels compelled "to rebut the idea that even [a] 100 percent [cost coverage] is sufficient". Tr. 9/3605. It must be stressed that OCA's proposed 101 cost coverage—as required by the Commission and acknowledged by witness Lion (Tr. 9/3605)—recovers 100 percent of space provision book costs, i.e., the attributable costs. While the Postal Service can be expected to argue that OCA's cost coverage is insufficient on other grounds, any argument that the cost coverage fails to cover market-based space provision costs is without merit.

para. 3278. Consequently, there is no requirement that higher fees should come first as a condition for Postal Service action. The appropriate course of action for the Postal Service is to install new boxes where needed and recover the cost of these new boxes in the revenue requirement of the next omnibus rate case.

Witness Lion states that "[d]ecisions to expand box service are usually initiated by local postal officials." Tr. 9/3546. However, it is the locus of final decision authority that is most important in determining whether an expansion of box service will take place. The Postal Service only speaks to the initiation of decisions. Id.

Moreover, the Postal Service confirms that it does not need an increase in post office box fees in order to expand box service where appropriate. Tr. 3/718. It already has the authority to do so. At best, witness Lion can only claim that with higher fees, local managers "should have the incentive to provide postal box expansion where the demand justifies" (Tr. 9/3611) and prompts witness Needham to "believe" that the additional revenue "will lead to increased spending for box expansion."⁶⁸ Such speculation regarding box expansion provides insufficient evidence to approve higher fees.

⁶⁸ Tr. 3/692. Furthermore, the Postal Service never acknowledges the unfairness of imposing higher fees on all

The Postal Service's position is further weakened by its failure to commit itself to expansion of box service at post offices with known shortages.⁶⁹ It is clear the Postal Service does not intend to " earmark " revenues for expansion of box service. Tr. 3/692. Despite its expectation of additional revenue, the Postal Service concedes that policy changes, and the timing of such changes, for the installation of new box sections where needed have not been formulated. Tr. 3/694.

The Postal Service has ample revenues for the relief of box shortages. The Postal Service realized net income of \$1.6 billion in fiscal year 1996—the second highest in history.⁷⁰ It also plans to pay nearly 63,000 postal executives \$169 million in

boxholders for the sake of relieving box shortages at a few offices.

⁶⁹ The record is devoid of information on Postal Service plans to expand box service at the following known locations where box shortages exist: Beverly Hills, CA; Middleburg, VA; Rancho Santa Fe, CA; Palm Beach, FL; Winnetka, IL; Modesto, CA; Lake Oswego, OR; West Linn, OR; Davidson, NC; Woodbridge, CA; Steamboat Springs, CO; Friday Harbor, WA; Lynden, WA; Stanwood, WA; Oroville, WA; South Cle Elum, WA; Santa Monica, CA; and, Blaine, WA. See LR-SSR-105; Tr. 716-17; and, USPS-T-3 at 8-10. San Luis, AZ, a growing community with an inadequate postal facility and no boxes available, is presently undergoing expansion. Tr. 3/454.

⁷⁰ Board of Governors Meeting, December 3, 1996, Transcript of Proceeding at 3.

year-end bonuses.⁷¹ Surely the Postal Service has the revenues to accommodate the need for additional boxes wherever that need might exist. In short, imposition of higher box fees is unjustified.

5. The Postal Service's estimate of space provision costs is unsound

Witness Lion explained the theory of space provision cost allocation by stating, "Space Provision costs are thus allocated in direct proportion to both rental cost per square foot and box capacity." USPS-T-4 at 36. While this may be reasonable, it is not what was actually done. In reference to the cost per square foot figures derived in LR-SSR-99, OCA witness Callow explains that the "rental costs per square foot represent the unweighted average of the rental cost per square foot for each facility, not the ratio of total cost to total area for all facilities in the delivery group." Tr. 5/1583. Clearly, it is the *second* of these two quantities (i.e., the total cost divided by the total area) that is required. The rental cost per square foot is simply the

⁷¹ "Postal Service to Grant \$169 Million in Bonuses to 63,000 Executives, Others." The Washington Post, Thursday, November 28, 1996, A25.

total rental cost divided by the total area rented (in square feet).⁷²

a. The ratio of averages is not the average of ratios

It is a simple algebraic fact that the ratio of averages is not equivalent to the average of ratios. For example, suppose that C_i =rental cost for facility i , A_i =area for facility i , and $i=1, \dots, n$. Then the ratio of average facility cost to average facility area (or equivalently the ratio of total cost to total area) is:

$$CSF = (\sum_i C_i / n) / (\sum_i A_i / n) = (\sum_i C_i) / (\sum_i A_i).$$

On the other hand, the average of facility cost per square foot ratios is:

$$av_i(CSF) = (\sum_i (C_i / A_i)) / n = \sum_i CSF_i / n.$$

These two formulas are clearly not equal, and the second one can produce misleading results. Consider the following hypothetical 2 office scenarios:

Scenario 1

Office 1 has rental costs of \$10,000 for 1000 square feet of space. Office 2 has rental costs of \$600 for 100 square feet of space. So, a total of 1100 square feet of space is leased for \$10,600 at a cost per square foot of \$9.64=10600/1100. The average of the two facilities' costs

⁷² An alternative (and equivalent) definition would be the ratio of average facility rental cost to average facility area.

per square foot figures would be $\$8 = \frac{1}{2}(10000/1000 + 600/100)$.

Scenario 2

Office 1 has rental costs of \$10,400 for 1000 square feet of space. Office 2 has rental costs of \$200 for 100 square feet of space. So, once again, a total of 1100 square feet of space is leased for \$10,600 at a cost per square foot of \$9.64. However, the average of the two facilities' costs per square foot figures drops to $\$6.20 = \frac{1}{2}(10400/1000 + 200/100)$.

Scenario 3

Office 1 has rental costs of \$600 for 1000 square feet of space. Office 2 has rental costs of \$10,000 for 100 square feet of space. So, once again, a total of 1100 square feet of space is leased for \$10,600 at a cost per square foot of \$9.64. However, the average of the two facilities' costs per square foot figures jumps to $\$50.30 = \frac{1}{2}(600/1000 + 10000/100)$.

In each of these 3 scenarios, a total of 1100 square feet is leased at a cost of \$10,600. Consequently, the cost per square foot for each of these scenarios must be the same figure, \$9.64. On the other hand, if you rely on the average of the facility cost per square foot figures, this average could be just about anything even though the total area (1100 square feet) and total rental cost (\$10,600) remain fixed.

- b. Witness Lion uses the average of cost per square foot figures to allocate space related costs

Witness Lion was correct in his initial goal of allocating space provision cost to delivery groups and box sizes based on

the cost per square foot. However, it appears that Foster Associates provided him with the wrong figures in library reference LR-SSR-99. Instead of total rental cost divided by total area (by delivery group), witness Lion was provided with the average of facility cost per square foot (by delivery group), or $av_i(CSF)$, using the above notation. See LR-SSR-99 at 30-32.

- c. The record does not contain the backup data required to compute the ratio of average facility cost to average facility square footage

The Postal Service provided two library references that related to calculating cost per square foot estimates from their data systems. The first one, LR-SSR-99, contained no data files and only provided the final $av_i(CSF)$ estimates. The second library reference, LR-SSR-156, filed October 30, 1996, contained a data file, but that file only contained cost per square foot ratios for each facility used.⁷³ Backup data that would permit summing facility rental costs and dividing by total facility area is not available.

⁷³ The file FMSRTE.DAT provided with LR-SSR-156 contains CAG, delivery group identifier, and a cost per square foot ratio for each of the 25,692 facility records. No facility rental costs or square footage is available on the data file.

6. The Postal Service's proposed surcharge on nonresident boxholders is totally without merit and must be rejected

a. The Postal Service proposes a substantial increase in price for nonresident boxholders

The Postal Service proposes to impose a \$36 annual surcharge on "individuals and businesses which reside or are located in one ZIP Code area and use a post office box in another." Request at 2. The surcharge would be imposed on such "nonresident" boxholders in addition to the applicable box service fee. In determining whether to assess the surcharge, the Postal Service would ask persons seeking to obtain or renew box service to furnish proof of residency. USPS-T-7 at 24.

The proposed nonresident surcharge represents a substantial increase in price for nonresident boxholders. To place the increase in perspective, the surcharge alone is larger than the Postal Service's proposed fees for box sizes 1 and 2 in Group II.⁷⁴ The surcharge is also larger than the Postal Service's proposed fee increases for all but the largest box size in Groups IA, IB and II.⁷⁵ Overall, the nonresident surcharge, combined

⁷⁴ USPS-T-7, Table 1, at 4. Compare the \$36 annual surcharge to the Postal Service's proposed \$16 and \$26 annual fee for box sizes 1 and 2, respectively, in Group II.

⁷⁵ Id. at 3-4. Compare the \$36 annual surcharge to the Postal Service's proposed annual fee increases for box sizes 1-4 in Group IA: \$12, \$18, \$32 and \$32, respectively; box sizes 1-4

with proposed box fee increases, produces price increases for nonresident boxholders that range from 17 to 115 percent in Group I, and 165 to 550 percent in Group II. USPS-T-7, Table 2 at 5-6.

Price increases of this magnitude for nonresident boxholders, at a minimum, should be based on substantial attributable cost evidence in the record to justify approval by the Commission.

- b. The Postal Service cannot show the existence of any attributable cost differences associated with providing box service to nonresident boxholders

In the pricing of postal services, the Postal Reorganization Act establishes as its only requirement "that each class of mail or type of mail service bear the direct and indirect postal costs attributable to that class or type" 39 U.S.C. § 3622(b)(3). Consequently, the attribution of costs is of central importance to the Commission in setting postal rates and fees. PRC Op. R90-1, para. 4005.

in Group IB, \$12, \$16, \$28 and \$28, respectively; box sizes 1-5 in Group IC, \$10, \$14, \$26, \$18 and \$12, respectively; and, box sizes 1-4 in Group II, \$8, \$13, \$24 and \$35, respectively.

- i. There is no record evidence of attributable costs to support Postal Service claims of administrative burdens associated with box service for nonresidents

The Postal Service asserts that nonresident boxholders present greater administrative burdens, and consequently greater administrative costs, than resident boxholders. Further, the nonresident surcharge "would [] compensate the Postal Service for the additional work related to non-resident boxholders." Tr. 3/691. The testimony of USPS witness Landwehr describes these allegedly greater administrative burdens. USPS-T-3 at 3-10.

However, witness Landwehr "does not quantify the cost differential in his testimony." Tr. 3/749. In fact, the Postal Service is unable to identify or quantify "any attributable cost differences associated with providing box service to residents [or] nonresidents" Tr. 3/586. In the absence of such attributable cost differences, neither the Commission nor the Postal Service can know whether there are any extra costs for providing box service to nonresidents. Any Postal Service claims to the contrary are pure speculation.

Despite the absence of any attributable cost information concerning extra costs, the Postal Service proposes a substantial

nonresident surcharge which, witness Needham concedes, "was not determined based on costs." Tr. 3/674.

If an attributable cost difference associated with nonresident box service exists, it should have been provided by the Postal Service. The fact that the Postal Service is unable or unwilling to do so strongly implies that the cost difference (if any) must be insignificant. Tr. 5/1591.

- ii. The reliance on "qualitative descriptions" of administrative burdens to substantiate Postal Service allegations of cost is inadequate

The Postal Service's failure to quantify any attributable cost differences associated with nonresident box service forces it to rely upon "qualitative descriptions . . . of the operational difficulties presented by non-resident boxholders" Tr. 3/686. The Postal Service asserts such "qualitative data may also be appropriately relied upon" and urges that the Commission do so as a basis for its decision concerning the surcharge. Tr. 5/1647. The Commission should reject such entreaties, as the qualitative descriptions are totally inadequate to support recommendation of the proposed nonresident surcharge.

The Postal Service proffers qualitative descriptions of operational difficulties and administrative burdens by nonresident boxholders drawn from anecdotal information. The qualitative descriptions are limited to the observations of three postmasters (Tr. 3/435) who administer three admittedly atypical post offices. USPS-T-3 at 10. From other anecdotal sources, the Postal Service identifies only 23 other post offices that "face challenges in serving non-resident boxholders."⁷⁶ On this record, the Postal Service, at best, has presented anecdotal information on only 26 post offices out of a total of the 25,591 post offices offering box service identified in the PO Box Study.⁷⁷ "There is no evidence that [the described administrative burdens represent] a nationwide problem" Tr. 5/1591.

Moreover, the Postal Service is unable to link the qualitatively described administrative burdens uniquely to nonresident boxholders. The Postal Service has not established that nonresident boxholders engage in cost-causing behaviors or

⁷⁶ Tr. 3/716-17. Only three of these offices—Malibu, San Ysidro and Lincoln, California—are specifically noted as having any of the qualitatively described administrative burdens, that of "box mail accumulation problems resulting from infrequent box mail pickups." Tr. 3/716.

⁷⁷ The PO Box Study is discussed in USPS-T-4 at 3-14.

activities that are different in kind from residents. See Tr. 5/1525. Nor has the Postal Service established that nonresident boxholders engage in these or other activities in a significantly greater frequency than residents. *Id.*

Nevertheless, the cost-causing behaviors ascribed to nonresidents boxholders are, in fact, not unique to nonresidents. The Postal Service acknowledges that resident boxholders may create a mail accumulation problem in their local post offices, Tr. 3/799, when, for example, such residents leave town on vacation. *Id.* at 486. With respect to Freedom of Information (FOI) Act requests made on behalf of resident and nonresident boxholders, the procedures (and presumably costs) "for handling FOI requests are the same regardless of the residence status of the box customers involved."⁷⁸

Witness Landwehr confirms that the cost of processing a request for a temporary forwarding order is the same for a nonresident as it is for a resident boxholder. Tr. 3/453. He

⁷⁸ Tr. 3/456; *see also* *Id.* at 488. While procedures for handling FOI requests are admittedly the same, in the case of San Luis, AZ, witness Landwehr alternatively claims it is the "concentration of [FOI] requests" on behalf of nonresident boxholders that is problematic. Tr. 3/490-91. Witness Landwehr's position is undermined by the revelation of the San Luis postmaster that "approximately 70 percent of the government information requests pertain to local residents." Tr. 8/3029.

concedes that nonresident boxholders are equally as capable of filling out forms without assistance as resident boxholders. However, he asserts that "non-native speakers of English [in San Luis] . . . require additional assistance." Tr. 3/433. "Non-native speakers" could be largely resident boxholders, not nonresident boxholders, in the San Luis area or elsewhere.⁷⁹ As these examples reveal, there is nothing in the record to suggest that the identified administrative burdens and cost-causing behaviors are solely the province of nonresident boxholders.

The Postal Service has not established on this record that nonresidents engage in cost-causing behaviors at a higher frequency than residents. Witness Needham asserts that "non-resident boxholders are more apt to present costlier situations than residents." Tr. 3/655. The assertion is based on anecdotal information from witness Landwehr's testimony. However, as discussed above, this assertion is either unsupported or

⁷⁹ Apart from San Luis, AZ, the additional staff time needed to assist non-English speaking patrons is more likely to arise for services provided to residents than nonresidents, and such services are not limited customers that utilize box service. The notion of charging higher fees for postal services to non-English speaking customers, or blind, elderly, or mentally handicapped customers for that matter, offends all established principles of due process. Witness Landwehr's remarks about non-English-speaking patrons are patently offensive and should be ignored by the Commission.

contradicted by record evidence. Given its anecdotal character, the frequency of each of these more "costlier situations" on a nationwide scale cannot be established separately for residents and nonresidents. The information was simply not collected. Tr. 2/385. In fact, the Postal Service can provide no "quantified information regarding [operational difficulties of non-resident boxholders], whether in the form of cost studies or compilations of written reports" ⁸⁰ Consequently, witness Needham's assertion lacks any foundation on this record.

The Postal Service proposes to impose a new, \$36 annual nonresident surcharge without quantifying any attributable cost differences associated with providing box service to nonresidents. For a surcharge of this magnitude, the Postal Service should rely on quantitative attributable cost data. The absence of this attributable cost data prevents the Commission and the Postal Service from determining whether the new surcharge is reasonable in relation to the alleged costs. ⁸¹ The Commission

⁸⁰ Tr. 3/685. See also OCA-T-300 at 7-8 highlighting the fact that "[n]o studies were conducted on the frequency of cost-causing behaviors by resident and non-resident boxholders with respect to" the operational difficulties identified by witness Landwehr. Tr. 5/1525-26.

⁸¹ In addition, without attributable cost data, it is not possible to ascertain whether the surcharge covers the alleged costs for which it is being imposed. Tr. 5/1591.

must reject the nonresident surcharge since the qualitative descriptions of administrative burdens are insufficient to sustain the Postal Service's burden of proof.

- iii. The analogies made by witness Needham to nonresident fees by public and private entities are irrelevant and unsubstantiated

In the absence of quantifiable cost data, witness Needham resorts to arguing that the nonresident surcharge "need not be dictated by a measured cost differential" or have any other cost basis. Tr. 9/3456. On rebuttal, she elaborates upon examples presented in her direct testimony of "fees charged by other public and private entities which are similar to the proposed non-resident fee but are not based on quantified costs." Tr. 9/3453.

Witness Needham's efforts to rehabilitate the nonresident surcharge with more unsupported rebuttal testimony fail utterly. She asserts repeatedly with great confidence that the operating costs of two local government recreation programs—a golf club and summer day camp—are covered by fees and not subsidized by county taxpayers. Tr. 3/910; see also Tr. 9/3464, 3466-69. Nevertheless, she acknowledges that "[t]here could be capital costs with respect to the [golf club]" that are taxpayer

subsidized "but that I am not familiar with." Tr. 3/909; see also Tr. 9/3473-74. Witness Needham's unfamiliarity with the operating expenses of the programs, Tr. 9/3464, 3466-69, is not surprising since she has no experience in the budget offices of the respective local governments. Tr. 9/3457. Moreover, other than her testimony, witness Needham confirms "there's nothing else on the record" to substantiate or independently verify her claims that the public programs cited operate without taxpayer subsidies and, as a consequence, whether fees cover costs. Tr. 9/3477. With respect to private entities, witness Needham admits that the fee for returning a movie video rental to a location other than where it was rented could be based on higher transportation costs or an imbalance in inventory. Tr. 9/3478; see also Tr. 3/658.

- c. The Postal Service has not established that a nationwide shortage of post office boxes exists or that nonresidents are the cause of what limited box shortages do exist
- i. Witness Lion's claim that 38 percent of all post offices have all boxes in use for at least one box size is misleading

Witness Lion presents information from the PO Box Study showing that "38 percent of post offices in Group I and II have a

capacity constraint in at least one box size." USPS-T-4 at 9.

This measure of post office box shortage is misleading.

While witness Lion's measure of capacity constraint can be determined from the data and is mathematically correct, it is irrelevant to the real problem faced by potential boxholders, i.e., an inability to obtain a box. Tr. 5/1592. The proportion of post offices in which all boxes of at least one size are in use has no meaning for potential boxholders. For this reason the "38-percent figure is misleading because it grossly exaggerates" the difficulty of obtaining box service. Id.

The reality for a potential boxholder seeking box service is far less problematic than the 38-percent figure suggests. For box size 1, 10 percent of post offices report all boxes of this size in use. USPS-T-4, Table 6, at 9. For box sizes 2, 3, 4 and 5, the percentages are, respectively, 13, 22, 12 and 5 percent. Id. In the worst case, what this means "for a potential boxholder who desires a particular box size (and no other) [is that] the highest probability of finding a post office where all boxes of a given size are in use is 22 percent for a box size 3."⁸²

⁸² Tr. 5/1558. Conversely, the probability of a potential boxholder obtaining box service at a post office for box sizes 1-5 is, respectively, 90 percent (1-.10), 87 percent (1-.13), 78

Nevertheless, the Postal Service would have the Commission believe that the 38-percent figure is a meaningful measure of box shortages. It is not. The 38-percent figure is significant only if one believes that a potential boxholder seeks box service for all installed box sizes at a post office at the same time and refuses the box service if any one of the installed box sizes is in use. Tr. 5/1592. The possibility of such an occurrence is very remote, to say the least.

What is important to a potential boxholder is that an office with all boxes of one size in use is still likely to have several boxes available in the other four sizes. Consequently, a potential boxholder will most likely be able to obtain box service at that post office in one of the other box sizes. For example, the unavailability of box size 1—the most popular box size (although not most prone to "shortages")—might cause a potential boxholder to obtain a box size 2 or 3. This is a reasonable supposition since the "average fee for the lowest-priced CMRA boxes is between 205 and 503 percent more expensive than a size 1 box." Tr. 5/1560.

percent (1-.22), 88 percent (1-.12), and 95 percent (1-.05). See USPS-T-4, Table 6 at 9.

Moreover, for a potential boxholder insistent on only one particular box size, it is not unreasonable to expect the boxholder to consider obtaining that box size at another post office. The probability of obtaining the box size of choice at one of several post offices is much greater than the percentage figures presented in the previous footnote. In the case of two post offices and a size 1 box, the probability of obtaining a size 1 box is 99 percent. For two post offices and the other box sizes, the probabilities are: box size 2, 98.3 percent; box size 3, 95.2 percent; box size 4, 98.6 percent; and, box size 5, 99.8 percent.⁸³

As demonstrated above, the Commission should attach no importance to the 38-percent figure as a measure of capacity constraint, or as a justification for the nonresident surcharge.

⁸³ The percentages shown here are calculated from the percentages 10, 13, 22, 12 and 5 for box sizes 1-5, respectively, reported in USPS-T-4, Table 6, at 9. Thus, for box size 1, $99\% = [1 - (.10 * .10)]$; box size 2, $98.3\% = [1 - (.13 * .13)]$; box size 3, $95.2\% = [1 - (.22 * .22)]$; box size 4, $98.6\% = [1 - (.12 * .12)]$; and, box size 5, $99.8\% = [1 - (.05 * .05)]$. These percentages assume that a) the event of all boxes rented at one post office is independent of the event that all boxes are rented at another post office, and b) an equal probability of availability for boxes applies at each post office.

- ii. A more realistic measure of a potential boxholder's ability to obtain box service is the "availability," or lack thereof, of boxes at post offices

Potential boxholders can only obtain box service at post offices where boxes are available. An "availability" problem, or capacity constraint, at a post office arises where all installed boxes are rented or where no boxes are installed.

For a potential boxholder, what matters is the availability of boxes. For this reason, a more realistic measure of a potential boxholder's difficulty obtaining box service is to determine the percent of offices where no boxes are available.

Using this measure, there is no nationwide shortage of post office boxes. Only 5.25 percent of post offices with installed boxes in the PO Box Study have no boxes of any size available.⁸⁴ Ninety-five percent of all offices have boxes available. Tr. 5/1531. Stated in probabilistic terms, a potential boxholder

⁸⁴ Tr. 5/1531. On rebuttal, witness Lion asserts OCA witness Callow's testimony "confuses 'boxes installed' with 'boxes available.'" Tr. 9/3533. There is no confusion on the part of witness Callow. The reality is that witness Lion introduces confusion by changing his definition of "boxes available" in his rebuttal testimony. During cross-examination, witness Lion admits that witness Callow uses "boxes installed" to calculate capacity constraint in the same manner as witness Lion did in USPS-T-4. Tr. 9/3558-59. Further, witness Callow uses the term "boxes available" in the same way witness Lion did in his direct testimony. Tr. 9/3552-57.

could obtain box service "in roughly 95 percent of the facilities represented in witness Lion's PO Box Study." Id.

Consequently, OCA's calculation that five percent of all post offices have no boxes available is a more realistic measure of a potential boxholder's difficulty obtaining box service than the Postal Service's calculation that 38 percent of all offices have at least one box size in use.⁸⁵

iii. Witness Lion's introduction of "capacity utilization" with respect to post office boxes is speculation

On rebuttal, witness Lion presents alternate measures of capacity constraint at post offices. Tr. 9/3531-38. These measures involve the concept of "capacity utilization" and show

⁸⁵ During oral cross-examination, counsel for the Postal Service claims that "the 38 and 5 percent figures are accurate for what they are [in] that they both bear on capacity constraints in [a] somewhat different fashion[.]" Tr. 5/1662. While both are measures of capacity, they are not an "apples-to-apples" comparison. There is a distinction between the 5 percent of post offices having "no boxes available" and the 38 percent of offices with "all boxes of at least one box size in use." That is, there can be no boxes available at an office where none are installed. A simple example illustrates this point: Assume three post offices, PO1, PO2, and PO3. PO1 has 10 size 1 boxes (and no others) installed and 10 rented. PO2 has 10 size 1 boxes (and no others) installed and 8 rented. PO3 has no size 1 (or any other) boxes installed and, consequently, none rented. The proportion of post offices with "all boxes in use" is only 33 percent (1/3), i.e., PO 1. By contrast, the proportion of post offices with "no boxes available" is 67 percent (2/3); that is, PO1 and PO3.

full capacity at varying levels of post office box availability less than 100 percent of boxes installed. These measures are purely speculative and cannot be applied in this proceeding since the data collected by witness Lion are so unreliable as to prevent any determination of the number of boxes that are not "rentable today." LR-SSR-113 at 7.

Witness Lion's rebuttal testimony on this issue is pointless and irrelevant since the Postal Service can present "no direct measure of the percent utilization that represents full capacity for post office boxes" Tr. 9/3536. Consequently, the examination of varying levels of full capacity at less than 100 percent of boxes installed is arbitrary and self-serving, permitting the Postal Service to derive virtually any percentage figure of post offices at capacity it desires. Id. (see USPS-RT-3, Table 2, at 8). Cross-examination exhibit OCA-XE-REBUT-1 shows the results of other arbitrarily-chosen measures of full capacity utilization. Tr. 9/3571. As the capacity utilization rate approaches 100 percent, the percent of post offices at capacity approaches 5.2 percent. Id. Indeed, by careful selection of the full capacity utilization rate, the Postal Service could obtain almost any number as near or far from

5.2 percent as desired as its estimate of the proportion of post offices at capacity.

The Postal Service gives five reasons why full capacity should be less than 100 percent of boxes installed. Tr. 9/3533-34. All are speculative and none stand up to scrutiny. Despite witness Lion's claim that it is a "virtual impossibility" to have all installed boxes in use, Tr. 9/3533, he is unable to supply any evidence to substantiate his claim. Tr. 9/3559-66.

- iv. Assuming, arguendo, that a box shortage exists, the Postal Service has not established that nonresidents are the cause of such a shortage

Despite efforts to manufacture misleading measures of post office box shortages, the Postal Service's own quantitative data reveal no box availability problem at post offices nationwide. As indicated previously, the data show that 95 percent of all post offices in the PO box Study have boxes available. Tr. 5/1531.

Nevertheless, the Postal Service attempts to justify the surcharge by claiming "residents are unable to secure post office box service . . . due to a large influx of non-resident box customers." Tr. 3/684. However, the Postal Service cannot show that the five percent of post offices without boxes available

contains a disproportionate number of nonresident boxholders, that the shortage is caused by such boxholders, nor that a nonresident surcharge would relieve such a shortage. "No information was collected [in the PO Box Study] on nonresident boxholders" to permit this determination. Tr. 3/621.

Moreover, singling out nonresidents as the cause of box shortages defies logic. Perhaps resident boxholders contribute to box shortages for nonresidents, retired boxholders contributed to box shortages for working persons, business boxholders contribute to box shortages for individual boxholders, etc. The fact is, any one category of boxholders contributes to the unavailability of boxes for all other categories of boxholders when there is a box shortage. Choosing any particular category to blame for a shortage is arbitrary and irrational.

- d. The Postal Service's nonresident surcharge is unfair and inequitable

The Postal Reorganization Act refers to the "establishment and maintenance of a fair and equitable schedule;" 39 U.S.C. § 3622(b)(1). Section 403(c) of the Act directs that, "In providing services and in establishing, classifications, rates and fees under this title, the Postal Service shall not . . . make any undue or unreasonable discrimination among users of the

mails" 39 U.S.C. § 403(c). Nevertheless, the Postal Service's proposed nonresident surcharge is unfair and inequitable, and constitutes an unreasonable discrimination among boxholders.

- i. The nonresident surcharge unfairly discriminates against nonresident boxholders who do not engage in the alleged cost-causing behaviors

The nonresident surcharge would unfairly penalize many (probably most) nonresident boxholders. Few nonresident boxholders would "impose costs on the Postal Service above and beyond the costs a typical resident boxholder would impose." Tr. 8/2517. Nonresident boxholders who do not live near their places of employment, but obtain box service there, probably exhibit none of the cost-causing behaviors alleged by the Postal Service. For example, since they can visit their post office boxes regularly, mail of such boxholders should not tend to accumulate. Nevertheless, by virtue of obtaining box service outside their local delivery area, these boxholders would be subject to the nonresident surcharge.

Conversely, the surcharge would be imposed only on nonresident boxholders for cost-causing behaviors that are common to residents as well. A resident boxholder whose local post

office offers limited hours of access to its box section may pose a mail accumulation problem at that post office. Tr. 8/2520. As noted earlier, there is nothing in the record to suggest that residents do not engage in the alleged cost-causing behaviors described by witness Landwehr, nor even that they exhibit a lesser propensity to do so. *Supra* at section III.A.6.b.ii. Nevertheless, such resident boxholders would be exempt from the nonresident surcharge despite their cost-causing behaviors.

The Postal Service admits that "in terms of the pricing [the nonresident surcharge] is a discriminatory fee." Tr. 3/824. It is discriminatory for all of the reasons outlined above and, consequently, must be rejected.

ii. The implementation plans for the nonresident surcharge constitute undue discrimination

Concurrent with the proceedings in this docket, the Postal Service instituted an implementation process for special services reform proposals, including implementation of the nonresident surcharge.⁸⁶ These implementation plans constitute undue discrimination for boxholders, in particular, those boxholders

⁸⁶ See Status Report of United States Postal Service On Implementation Of Special Service Reform Proposals, October 23, 1996, Tr. 8/3217-21.

who live outside large metropolitan areas with multi-ZIP Code post offices.

As proposed by witness Needham, the nonresident surcharge would be imposed on "customers obtaining box service outside the 5-digit ZIP Code area where they reside or have a business" USPS-T-7 at 2. However, under the implementation plan,

a boxholder who is eligible for delivery from one facility of a multi-ZIP Code post office will be treated as a resident at any facility assigned to that post office. This [change] eliminates the possibility that many residents of multi-ZIP Code offices will find their choice of facilities at which to obtain box service severely limited if they wish to avoid the non-resident fee.

Tr. 8/3218.

The Postal Service implementation plan effectively discriminates against boxholders in smaller communities. Residents of larger communities, where there are subordinate branches and stations to a main post office, have more than one option to obtain box service at offices other than their local delivery office and can avoid the nonresident surcharge. By contrast, residents in smaller communities, served by a single post office (and no subordinate branches or stations), would have no opportunity to avoid the nonresident surcharge if they desire box service outside their local delivery area.

Under such circumstances, the Postal Service's plans to implement the nonresident surcharge constitute undue discrimination. By design, only certain boxholders—those who live in larger communities with facilities under the jurisdiction of a multi-ZIP Code post office—can avoid the surcharge, while boxholders in smaller communities have no such choice.

- e. The paucity of Postal Service evidence thwarts participant and Commission efforts to evaluate the effect of the surcharge on nonresident boxholders

Section 3622(b)(4) of the Postal Reorganization Act directs consideration of "the effect of rate increases upon the general public." 39 U.S.C. § 3622(b)(4). At best, the Postal Service's evidence is inadequate to permit evaluation of the effect of its proposal on boxholders. At worst, it has created a "moving target" with respect to application of the nonresident surcharge, rendering any such evaluation meaningless.

The Postal Service provides no estimate of the number of boxholders qualifying under its several definitions of "nonresident." In the Postal Service's direct case, witness Needham defines nonresidents "as those individuals or business boxholders whose residence or place of business is not located within the 5-digit ZIP Code area of the office where box service

is obtained." USPS-T-7 at 23-24. The Postal Service's proposed change in the special service schedule provides another: "[A]ll customers will be subject to an additional semi-annual \$18.00 nonresident fee per box . . . unless they receive . . . an exemption based upon proof of local residency." Request, Attachment B, at 5-6, n. 1.

The only data available on the number of nonresident boxholders is based on witness Ellard's market research survey. See LR-SSR-111. That survey only estimated the number of boxholders who believe they are nonresidents. Tr. 2/388. Such an estimate is of highly questionable value as it "is unlikely the Postal Service would exempt a boxholder from the non-resident surcharge based on the boxholder's belief that he is a resident." Tr. 5/1532.

As part of the implementation process, the Postal Service now defines *resident* for the purpose of determining who is not subject to the nonresident surcharge. As discussed *supra*, a resident boxholder would be one "who is eligible for delivery from . . . any facility assigned to that [multi-ZIP Code] post office." Tr. 9/3218. The Postal Service provides no estimate of resident boxholders to accompany its new definition. More significantly, however, through the "implementation" process the

Postal Service has potentially "converted" thousands (possibly millions) of nonresident boxholders to resident boxholders in larger cities with multi-ZIP Code post offices.

The Postal Service's definition of nonresident is a "moving target" that makes evaluation of the effect of the surcharge meaningless. The Postal Service refuses to be "pinned-down" to a final (or near-final) set of implementation rules or even to a date certain when it will inform the Commission about its final implementation rules. Witness Raymond maintains:

We will have to publish a proposed rule, of course, subsequent to the Commission's rendering a recommended decision. We will have to make these decisions and form that between now and then. I couldn't give you an exact date.

Tr. 8/3311.

At the conclusion of the hearing on witness Raymond's testimony, Chairman Gleiman summarizes the Commission's frustration with the Postal Service's view that no concrete implementation rules can be revealed before the Commission issued its recommended decision:

You talked about a chicken-and-an-egg situation with respect to the regulations and having to await the PRC's recommended decision; and I would say that we have a comparable situation with respect to the Commission's decision. We have to see what the Postal Service's real case is

Quite frankly, you know, you have got to have something about which you can write a rule and we have to have

something based on which we can make a recommended decision.
I'm not sure that we have it now.

Tr. 8/3316-17.

The definition of a nonresident boxholder subject to the surcharge should not be deferred to implementation when the "details of residency will be determined." Tr. 3/663. In so doing, the Commission is precluded from evaluating the effect of the surcharge on nonresident boxholders, as required by law.

B. The State Of The Record In This Proceeding Precludes Any Increase to Certified Mail Fees

A chief purpose of Witness Needham's testimony is "to propose an increase to the current certified mail fee." USPS-T-8 at 58. This 36-percent fee increase (from \$1.10 to \$1.50) is not the result of any proposed classification change.⁸⁷

Witness Needham advances several reasons for the proposed increase:

(1) She claims that past cost coverage calculations for certified mail were in error due, primarily, to improper

⁸⁷ Tr. 2/128-29:

Q. [Mr. Ruderman] But no classification proposal is associated with Certified Mail?

A. [Witness Lyons] There are no classifications for Certified Mail. . . .

inclusion of return receipt revenues with certified mail revenues. Consequently, according to witness Needham, all reported cost coverages, dating as far back as Docket No. R84-1, have been substantially overstated.

(2) Based upon her belief that ancillary service revenues must be subtracted from the revenues for certified mail reported in the CRA,⁸⁸ she calculates a TYBR cost coverage of 107 percent for certified mail. USPS-T-8 at 71. This, she contends, is too low for a service with such high value.

(3) She cites the relative price insensitivity of certified mail, due to an insufficiency of available alternatives and high prices for those alternatives that do exist, as a justification for raising the fee for certified mail. USPS-T-8 at 67, 72.

(4) The proposed fee increase to \$1.50 for both certified and return receipt (\$3.00 combined), she says, is simple and easy to remember. Id. at 73.

1. Witness Needham's bare assertions that past cost coverage calculations are in error are insufficient grounds for a proposed fee increase

Witness Needham makes the extraordinary claim that Postal Service pricing witnesses in every omnibus rate case from Docket

⁸⁸ Tr. 9/3448-49 (USPS-RT-4 at 1-2).

No. R84-1 through Docket No. R94-1 (i.e., R84-1, R87-1, R90-1, and R94-1), have all reported the cost coverage for certified mail incorrectly.⁸⁹ Similarly, witness Needham claims that the Commission's cost coverage figures for certified mail in each of the four listed omnibus rate proceedings have been erroneous.⁹⁰

⁸⁹ Id. at 3508:

Q. [Ms. Dreifuss] Basically it's your testimony that the Postal Service witnesses have been making mistakes in reporting the cost coverage for Certified Mail in Dockets R84, R87, R90, and R94, is that correct?

A. [Witness Needham] That's correct. Maybe for different reasons amongst the proceedings

See also id. at 3480-81.

⁹⁰ Id. at 3504:

Q. [Mr. Alverno] So it's fair to say, then, that the longstanding error in the way that certified mail revenues have been reported in the CRA have contributed either to errors in the cost coverage for certified mail by the pricing witness or errors by the Commission in recommending a fee for certified mail?

A. [Witness Needham] Correct.

and at 3510:

A. [Witness Needham] With respect to the Certified Mail cost coverage . . . it's not so much what has been proposed. Actually, what has been recommended by the Commission? They have followed the CRA inconsistent treatment and it is a good time, probably, to stop that and realize the true cost coverage for Certified Mail

See also id. at 3481.

Due to the gravity of the Postal Service's charges—that all Commission decisions, from R84-1 through R94-1, contained mistakes in the calculation of the cost coverage for certified mail—and the lack of a clear explanation of how errors such as these could be perpetuated for more than a decade, OCA witness Collins testified that:⁹¹

[W]e are faced with a murky record with no clear and complete explanation of the methodology for developing certified mail costs.

I recommend that the fee for certified mail not be increased until the Postal Service fully explains its methodology.

OCA witness Sherman reached a similar conclusion:⁹²

If there is a longstanding error in the way costs have been evaluated for pricing certified mail service, that should be demonstrated and new rates might be proposed based on correct costs. At present the argument is not put explicitly and the reason for the increase--cost increases or previously incorrect costs—is not perfectly clear.

During oral cross-examination, he reinforced his earlier statement:⁹³

If the change in the connection between revenue and cost to alter this historical practice is the basis for the rate increase it would be nice to have this laid out to explain how the calculation used to be made, how it ought to be made, what the consequences are, and

⁹¹ Tr. 5/1699 (OCA-T-400 at 10).

⁹² Tr. 7/2289 (OCA-T-100 at 18).

⁹³ Id. at 2429.

present it as a basis for a rate increase, which is what the Certified Mail proposal is.

OCA's repeated efforts to obtain a clear and complete explanation of witness Needham's alleged "corrections" were stubbornly resisted. OCA's first interrogatory to witness Needham, OCA/USPS-T8-1, July 1, 1996, sought an explanation of the striking increase in the return receipt/certified mail cost coverage from the TYBR (205.5 percent, reported in witness Patelunas' Exh. USPS-T-5G, but revised on July 1, 1996, to 202.2 percent) to the TYAR (274.3 percent, reported in Exh. USPS-T-5J, but revised on July 1, 1996, to 271 percent). Her response to this interrogatory was filed on July 15, 1996, and gave the puzzling explanation that another Postal Service witness—Patelunas—had given an incorrect cost coverage figure "since return receipt costs are not included in the denominator of the fraction from which the cost coverage is derived in those exhibits." Tr. 4/1062. What was OCA to make of one Postal Service witness criticizing another for mistakes reported in the second witness' exhibits?

OCA submitted interrogatory OCA/USPS-T8-8, July 11, 1996, to witness Needham for the purpose of comparing certified mail and return receipt cost coverages reported by witness Patelunas in

this case with those reported by other Postal Service witnesses in the preceding two omnibus rate cases, Dockets R94-1 and R90-1. Witness Needham first responded, on July 25, 1996, that the cost coverages for certified mail in R94-1 and R90-1 were far less than Postal Service witnesses had represented them to be:

The certified mail cost coverages . . . of the question are inflated because they are calculated with ancillary service revenues. I have accordingly backed out the ancillary service revenue from certified mail revenue in the revised table below.

In this first attempt to answer interrogatory 8, witness Needham stated that the cost coverages for R90-1, R94-1, and MC96-3 were 65 percent, 96 percent, and 146 percent, respectively. Three weeks later, on August 15, 1996, witness Needham revised the answer to this interrogatory and stated that, after backing out the ancillary service revenue, the cost coverage for certified mail in R90-1 was not the 65 percent she originally claimed on July 25, 1996, but was 127 percent. On September 9, 1996, the day that hearings began on the Postal Service's direct testimony, witness Needham withdrew her August 15 revision and **now** claimed that the 65-percent cost coverage figure provided on July 25 was the correct figure. OCA was baffled by witness Needham's contradiction of figures she had furnished herself, of those provided by witness Patelunas in this

proceeding, and of figures provided by previous Postal Service witnesses in preceding dockets.

Witness Needham's differences with other Postal Service witnesses did not end with her rejection of figures in witness Patelunas' testimony nor those of Postal Service witnesses in previous proceedings; she also disagreed with the following explanation provided by Postal Service witness Lyons:

Q. [Mr. Ruderman] But there are no structural changes with regard to Certified Mail; is that correct?

A. [Witness Lyons] That is incorrect. As I indicated earlier, the Certified Mail, we changed the underlying **costing** and refined that to better reflect the **cost** for Certified Mail and I consider that to be a structural change when the basic **costs** or underlying **costs** for that have been changed.

Tr. 2/128. (Emphasis added).

In the afternoon session of the hearing on his testimony, witness Lyons made additional statements about certified mail costs:

Q. [Mr. Ruderman] Earlier this morning, we were talking about Certified Mail proposed rate increases and you indicated there has been a change in the nature of Certified Mail and this involved a costing change; is that correct?

A. [Witness Lyons] It is a **costing** change, not in the sense of how the attributable costs are handled but how the **costs** were handled for pricing purposes.

In other words, attributable costs for Certified Mail, there hasn't been a change in the system for that. However, erroneously, in the past, we assumed from a pricing perspective that that Certified Mail had

included with it the appropriate return receipt and restricted delivery **costs**. That was an erroneous assumption on our part in pricing and it dates back to when I did special services in 1984.

We determined that we had been doing it a while back and decided to make that correction. It is not a problem in the CRA costing of Certified Mail. They have been pulling out the return receipt costs and restricted delivery costs as they can determine them and putting them aside.

That is why I am drawing a distinction there. It is, we were erroneously, in a sense, double counting or double deducting those **costs**.

Tr. 2/153-54. (Emphasis added).

In a stipulation filed November 25, 1996, the Postal Service placed great importance on witness Needham's "testimony concerning Postal Service witness Lyons' testimony at Tr. 2/153-54 that there has been a 'major structural change in the costing of Certified Mail' by stating that witness Lyons was referring to a major structural change in the certified mail **cost coverage** methodology. Tr. 4/1198." (Emphasis added.) In other words, the Postal Service believed it necessary to correct witness Lyons' references to costs, rather than cost coverage.

OCA witnesses Collins and Sherman very reasonably relied upon witness Lyons' remarks to conclude that "major changes in the costing and pricing of certified mail service recently had been made."⁹⁴

⁹⁴ Tr. 5/1694 (USPS-T-400 at 5).

In keeping with its mission "to [i]dentify[] inaccuracies or fallacies in submitted data or information . . .,"⁹⁵ OCA submitted a cross-examination exhibit, "OCA Questions to Witness Needham (T8) Submitted in Advance of Oral Cross Examination,"⁹⁶ in which we requested a detailed explanation of these discrepancies. OCA expressed a preference for "a written response to this request for insertion into the record rather than responding orally on the stand." Witness Needham, however, did not respond in writing, but denounced, orally, the testimony of the Postal Service's witness in Docket No. R90-1:⁹⁷

Q. [Mr. Ruderman] All right. That is what was used in Docket Number R-90. It represents a Certified Mail development of attributable costs. Do you see that document in front of you now?

A. [Witness Needham] I do.

Q. Now, you are saying that there are errors in that document?

A. Yes, I am.

Q. What were those errors, please?

A. The errors were, the first line that lists the attributable costs before and after rates for Certified Mail, those that already had the Return Receipt and

⁹⁵ 39 U.S.C. part 3002, App. A.

⁹⁶ Tr. 5/1723-25, appended to the testimony of witness Collins as OCA-401.

⁹⁷ Tr. 4/1199-1200.

Restricted Delivery cost taken out of them. For whatever reason, the witness who prepared these took out additional costs that should not have been removed. I have verified that those were the accurate numbers for the Certified Mail cost -- Certified Mail costs with the ancillary costs removed from them.

So I have revised my response to Interrogatory Number 8 to reflect that I stand by the R-90 cost coverage for Certified Mail using the pure certified cost coverage is 65 percent.

Furthermore, she claimed that Postal Service witnesses going back to Docket Nos. R87-1 and R84-1 had committed the same mistakes:⁹⁸

Q. And this problem that you had with regard to calculating the cost coverage, I assume, for Certified Mail or Return Receipts and Restricted Delivery dated back to R-84 and R-87; is that correct?

A. It -- I know it dated back to R-84 and the proceedings since then. Prior to R-84, I'm not sure.

By OCA's count, witness Needham claims that the sworn testimony of **four** Postal Service pricing witnesses is wrong (i.e., in Dockets R84-1, R87-1, R90-1, and R94-1,) and that her testimony is correct. Furthermore, she has condemned the Commission's cost coverage determinations for certified mail in the same four dockets. To state our dilemma frankly, why should we believe witness Needham is correct and the testimonies of four earlier Postal Service witnesses and four decisions of the Postal Rate Commission are wrong? The Postal Service bears a very heavy

⁹⁸ Id. at 1200.

burden of proof in convincing OCA, other participants, and the Commission that more than a decade of ratemaking for certified mail has been founded on inaccurate cost coverage analyses of Postal Service witnesses.

At a bare minimum, witness Needham must lay out every detail of her cost coverage analysis in the present proceeding, defend its accuracy, and then lay out the same detailed information for cost coverage analyses performed by Postal Service witnesses in the last four omnibus rate cases. She must show the numbers used, cite or provide the source of all such numbers, show exactly where mistakes were made, explain how she has corrected alleged mistakes, and explain all discrepancies among various cost coverage figures reported in the CRA and certified mail pricing testimony for the present proceeding and the past four omnibus rate cases. This essential information has not been furnished by the Postal Service. Consequently, the Commission must not act upon witness Needham's representations.

Reform of cost coverage methodologies for certified mail must be deferred until the next omnibus rate case when, during discovery by participants of the Postal Service's case, these questions may be asked and answered early enough in the

proceeding to reach an informed decision about witness Needham's claims in this case.

2. The Postal Service has failed to establish that any negative cost coverages for certified mail in the past twelve years are due to errors in the cost coverage methodology followed by Postal Service pricing witnesses and the Commission

Witness Needham's position is that past cost coverage errors should be rectified in the instant proceeding by imposing a large fee increase on certified mail.⁹⁹ However, the Postal Service has never established that the alleged low or negative cost coverages ascribed to past omnibus rate proceedings ever did take place.

Witness Needham's citations in support of her claim that, at the time fees were proposed in past omnibus rate proceedings, negative cost coverages were inevitable,¹⁰⁰ were to the testimony of Postal Service pricing witnesses.¹⁰¹ The testimony of these witnesses was necessarily speculative. In the years following these rate cases, negative cost coverages may have occurred or

⁹⁹ Tr. 9/3452-53 (USPS-RT-4 at 5-6).

¹⁰⁰ I.e., 65% cost coverage for R90-1 and 96% cost coverage for R94-1. Tr. 4/1073 (witness Needham's response to interrogatory OCA/USPS-T8-8).

¹⁰¹ I.e., to USPS-T-22, R90-1, testimony of Marla Larson, and to USPS-T-11, R94-1, testimony of Grady Foster. Tr. 4/1126 (witness Needham's response to interrogatory OCA/USPS-T8-42(b)).

they may not. The Postal Service has offered no evidence in this proceeding that certified mail costs did exceed certified mail revenues in years subsequent to omnibus rate cases cited by witness Needham. Such evidence was readily available in the post-rate-case CRAs. Consequently, witness Needham's defense of the certified mail fee increase she proposes on this ground must be disregarded.

Furthermore, the vital proof that, if such shortfalls did occur, they could be causally linked to cost coverage methodological errors, certainly has never been demonstrated or even addressed on the record. Lacking that essential evidence, the Commission cannot approve the fee increases proposed by the Postal Service on the ground that alleged past certified mail shortfalls must now be recovered in the form of material increases to certified mail fees now.

Chairman Gleiman questioned witness Sherman on this point in the following exchange:¹⁰²

CHAIRMAN GLEIMAN: But it's the general principle of it's below cost, you ought to cover your costs and make a contribution?

THE WITNESS: Yes.

CHAIRMAN GLEIMAN: Are you aware -- assuming for the sake of discussion that something is below cost and

¹⁰² Tr. 7/2480-81.

that it's appropriate to increase the price you're going to charge for it, is there any reason or any requirement that you are aware of that one needs to make up the entire amount of the underpriced product at one time, plus a markup?

THE WITNESS: Well, that's, I think, a judgmental matter because one pricing criterion calls for rates to be above attributable cost, but in another, it takes into account effects on mailers which could call for a slower transition to the new rate.

CHAIRMAN GLEIMAN: So when you talk about the effect on mailers, you're talking about the B-4 ratemaking criteria?

THE WITNESS: Yes.

It is clear that witness Sherman's position is that making up for such shortfalls with certified mail fee increases should only occur (if at all) at a very slow, deliberate pace over a series of rate proceedings.

Furthermore, if such a principle were ever to be adopted as the premise for a rate increase, justice would require that the Commission begin with significant increases to single-piece third-class mail rates which have incurred negative cost coverages for a long period of time.¹⁰³ No participant can make

¹⁰³ Tr. 9/3373 (oral testimony of witness Lyons):

Single piece Third -- single piece Third I think is a structural problem which probably deserves a lot of attention and needs to be done right, and does not necessarily need to be just -- we have been chasing our tail trying to raise the rates on that for the past 15 or 20 years and I understand the point here, and you

the representation that needed increases to single-piece third-class mail rates were included among the rate increases proposed in the instant proceeding.

3. Witness Patelunas' testimony puts the accuracy of some volume estimates for certified mail in dispute

In an attempt to explain why the attributable costs for certified mail dropped precipitously from FY 1994 to FY 1995, witness Patelunas stated in response to OCA/USPS-13 that approximately 40 percent of the decline was due to an RPW reporting change:¹⁰⁴

The RPW reporting change was for transaction revenues, and hence volumes, associated with return receipts for merchandise. Beginning in FY 1995, the volumes for return receipts for merchandise were included in with Certified Mail.

Witness Lyon's pricing workpapers¹⁰⁵ show the FY 1995 transactions for certified mail with merchandise return receipts

raise rates 40 percent again and the costs go up 60 percent and you wouldn't have fixed anything.

I think -- which gets back to the point here -- we went and looked at structural problems here and worked to fix them, and I think to the degree that you say, gee, single piece Third according to the CRA is below cost, we need to raise rates again -- we have been doing that for 15 or 20 years without success.

¹⁰⁴ Tr. 2/271-72. (I.e., 266,431 certified volume plus 22,395 return receipt for merchandise volume = 288,827 CRA volume.)

¹⁰⁵ USPS-T-1, WP D, page 1.

removed (266,431). However, the transactions in WP D that are used to calculate revenues, before (289,613) and after (277,803) rates, have been taken from the CRA with no adjustment.¹⁰⁶

The addition of merchandise return receipts volumes to certified mail volumes has a significant effect on the revenues calculated in workpaper D and the costs shown in USPS exhibits. Why was the FY 1995 RPW changed? Was the change to be a one time adjustment? A permanent change? Why should merchandise return receipt volumes be included with certified? The confusion in the record (discussed in the preceding section) is exacerbated by the questions concerning certified mail volumes.

At Tr. 5/1826-27, witness Collins testified about the unresolved inconsistencies surrounding the Postal Service's proposed increase to the certified mail fee:

I am talking about the way you [the Postal Service] have defined costs, they seem to have changed over time, they have changed significantly and they need to be explained and when you add into it changes in the RPW which now add -- change the volume so that you have another mish-mosh having merchandise return receipt volumes included with your Certified volumes, I think it becomes even less clear.

What is clear is that the Postal Service's proposal to increase the fee for certified mail is not supported by substantial evidence. It should not be adopted.

¹⁰⁶ See USPS-T-5G and 5J, respectively, both at 23.

4. The Postal Service's attempt to exercise its monopoly power in the certified mail market, in a quest to maximize institutional cost contributions, must be rejected

Witness Needham attempts to justify the increase in the certified mail fee, in part, on the price insensitivity of this mail due to a general lack of available alternatives (USPS-T-8 at 67) and the high price of those alternatives that do exist (id. at 72). Witness Sherman cites witness Needham's testimony as evidence of the "great market power the Postal Service has in the market for certified mail." Tr. 7/2290 (OCA-T-100 at 19). He notes the impropriety of having the Postal Service exploit its market power (id. at 2277 (and 6), footnote omitted):

Having alternative services available only at higher prices means the Postal Service has market power. The point has been made often: ". . . monopoly power is present when a firm is sufficiently insulated from competitive pressures to be able to raise prices . . . without concern for its competitors' actions because its rivals cannot offer customers reasonable alternatives." That such monopoly power would be exploited by a retailer is unsurprising. The fact that a retailer would exploit monopoly advantage is also irrelevant as far as pricing the services of the Postal Service is concerned.

In response to Postal Service interrogatory USPS/OCA-T100-7,¹⁰⁷ he also states that:

¹⁰⁷ Tr. 7/2329.

[I]t is not irrational for a private firm to attempt to raise the prices of its products to be closer to prices of alternative products. Profit seeking private retailers can be expected to do it at every opportunity. It may not be appropriate action, however, for a public enterprise that is to serve the public.

Consequently, any notion that higher fees can be justified as an exercise of monopoly power, in the quest to maximize institutional cost contributions, must be rejected as inconsistent with the Postal Service's public service obligations.

5. Twin \$1.50 fees for certified mail and return receipts are a vacuous justification for the certified mail increase

One of the rationalizations given by witness Needham for the certified mail increase is:¹⁰⁸

An increase to \$1.50, along with a combined certified mail/return receipt fee of \$3.00, would make the fee simple and easy for customers and postal employees to remember.

Witness Collins' unrefuted testimony at Tr. 5/1703-04 (OCA-T-400 at 14) is that there is no reason for certified mail and return receipt fees to be linked in this manner. Witness Collins

¹⁰⁸ USPS-T-8 at 73.

accurately characterized the "notion of identical twin fees" as "arbitrary."

Mr. Popkin made this point in his oral cross-examination of witness Needham:¹⁰⁹

Q. [Y]ou indicated that the \$1.50 certified mail fee coupled with the \$1.50 return receipt fee would be simple and easy to remember and my question to you was wouldn't it be even easier to remember if the certified mail and the return receipt fees were each 34 cents, making the one ounce certified mail return receipt letter cost an even dollar, and your response was "No more so than a penny or \$100."

Does that mean that any even amount from a penny up to a hundred dollars would have been easy to remember?

The meaning of the question is obvious—almost any round number would meet witness Needham's criterion. Certainly a \$1.10 fee for certified mail is easier to remember than many widely used rates, such as the second-ounce First-Class Mail rate of \$0.23 or the two-pound parcel post rates of \$2.56 for the local zone, \$2.63 for zones 1 and 2, \$2.79 for zone 3, and \$2.87 for zone 4.¹¹⁰ Witness Needham's notion that any importance should be attached to twin fees of \$1.50 is vacuous and should be completely disregarded.

¹⁰⁹ Tr. 4/1268.

¹¹⁰ Hard to remember numbers are found in almost every rate cell of parcel post.

C. The Postal Service's Proposal For Return Receipt Is Flawed

1. A thirty-six percent increase in the fee for return receipt is entirely unwarranted

The Postal Service proposes to merge the two options available to mailers of return receipts purchased at the time of mailing. Presently, a mailer may choose a receipt which shows to whom and date delivered or one which shows to whom, date delivered and address. The proposed new return receipt would show to whom and date delivered, and the delivery address only if it is different from the addressed mailpiece. The proposed fee is \$1.50—the current fee for the service which always provides an address, but constitutes a 40-cent increase for the 98 percent of regular return receipt purchasers who do not request an address.

Witness Needham justifies this fee increase and restructuring by stating that "the change would provide better service to customers who do not request delivery address information." USPS-T-8 at 86. She claims that customers who previously purchased only date and signature "would not be paying more for the same service, but rather would pay a higher fee for a service enhancement." Id. (Emphasis added.) Other reasons given are simplification of the fee structure and a combined fee

for certified and return receipt service ($\$1.50 + \$1.50 = \$3.00$) that is easy to remember.

OCA witnesses Sherman and Collins are strongly opposed to imposition of a 36-percent fee increase. Witness Sherman summarizes the unfairness and irrationality of the proposal in his response to Postal Service interrogatory 57:¹¹¹

No new service [for return receipt] is created. Two services are already available, a basic signature-and-date service, and service with an added address feature. The service with the address feature costs more. Customers clearly prefer (by about a 9 to 1 margin) the basic, no-address service. They say that the enhanced service is not worth its added cost to them.

. . . . The signature, date, and address (if different) offering is virtually the same as the present signature, date, and address option, which has a fee of \$1.50 that will not change. The \$1.10 fee applies to the overwhelmingly more popular signature and date option which will no longer be offered.

The proposal should not really be described as one to combine the signature and date return receipt option with the signature, date, and address option. The signature and date option is simply being eliminated. It is being taken away. Consumers will have to take the added address feature, and they will be forced to pay for it. Despite the fact that almost 90 percent of users choose and thus prefer the service that provides just signature and date, the Postal Service is proposing to eliminate that service option.

¹¹¹ Tr. 7/2407-08. Witness Sherman's reference to a 9 to 1 margin is based upon total volumes for return receipts. When one focuses on non-merchandise return receipt volume, the percentage of customers who reject the more expensive address option—98 percent—is even more striking. Tr. 5/1705 (OCA-T-400 at 16).

As witness Collins testifies at Tr. 5/1704-09, the benefits of providing an address, if changed, and the fee options simplification must be balanced against the customers' lack of interest in purchasing the current address option at \$1.50. Also, as witness Collins demonstrates, provision of the very slight enhancement in service proposed will cause Postal Service costs to increase insignificantly, if at all. Id.

A different address would be provided to customers only on rare occasions. When asked if the new service would be more analogous to the present service which always provides an address, witness Collins responded: "I don't think so." Tr. 5/1795 and 1799.

The Commission should reject the fee increase for return receipt proposed by the Postal Service.¹¹²

2. Elimination of the current return receipt address option for all deliveries might be a disservice to merchandise return customers whose needs are likely to be different from non-merchandise customers

The Postal Service requested that the same proposal to merge the two options of regular return receipts be made applicable to merchandise return receipts. Witness Needham proposes

¹¹² OCA's proposal to implement the classification change proposed by witness Needham, but at the current fee level, is discussed infra in Part IV.

justifications similar to those stated for regular return receipts. Witness Collins' testimony did not address new fees for merchandise return receipts. Tr. 5/1764 and 1802. While she agreed that there might be some parallels between the offerings of the two services, witness Collins stated that merchandise return receipt service customers purchase the address option more frequently than do regular return receipt customers. Tr. 5/1802. By implication, these customers might value the ability to choose to receive the delivery address for all deliveries more than would non-merchandise return receipt customers. Consequently, collapsing the two receipt options into one might be a disservice to merchandise return customers.

D. The Postal Service's Proposed "New Special Service" For Postal Cards Is Nothing More Than A Fee Increase For Postal Card Users

In this docket, the Postal Service proposes a new, two-cent fee for postal cards. The proposal is to amend the Domestic Mail Classification Schedule to add a classification and separate fee for "stamped cards" that would be similar to the fee for stamped envelopes. The proposed two-cent fee would purportedly pay for the additional manufacturing costs of postal cards and add a

markup to reflect their value of service to the purchaser. USPS-T-8 at 95.

Witness Needham states that the proposed changes to postal cards (renamed as "stamped cards") would reflect the parallel nature of stamped envelopes and postal cards. She also rationalizes that the new fee would help differentiate the product from private post cards. USPS-T-8 at 94.

As witness Collins states, the classification proposal to charge a fee for a postal card bears a superficial resemblance to the fee charged for a stamped envelope. Tr. 5/1710. However, when the facts surrounding the new fee proposal are examined, the Postal Service's "stamped card special service proposal" is seen to be an unwarranted fee increase for postal cards.

Witness Sherman finds the proposal to be uneconomic since the "effective price of the postal card" is raised, "thereby discourag[ing] the use of a Postal Service offering that costs so little to process, while at the same time encouraging the use of a service that costs more to process. And these effects may be stronger than is currently being assumed."¹¹³

Witness Sherman also points out the inconsistent treatment by the Postal Service in the provision of mailing materials at no

¹¹³ Tr. 7/2295 (OCA-T-100 at 24).

charge.¹¹⁴ Free envelopes and cartons are furnished to Priority and Express Mail customers that can be very costly if purchased at retail prices from the Postal Service. For example, cartons for which the Postal Service may charge \$1.50 are given free to Priority and Express Mail customers. The manufacturing cost of postal cards—a mere 1.1 cents¹¹⁵—is negligible in comparison to such costly materials.

1. The effect of the Postal Service's stamped card fee is to penalize purchasers of postal cards by double charging them for manufacturing costs

Witness Needham maintains that she has not double counted any costs (including manufacturing costs).¹¹⁶ However, this representation is clearly contrary to the facts. The purpose of the two-cent stamped card fee she proposes is to "reflect the manufacturing cost and the value of the stationery that customers now receive at no additional charge above postage."¹¹⁷ Moreover, the 170-percent cost coverage applied to the manufacturing cost "is the lowest cost coverage possible that recovers the

¹¹⁴ Id. at 2411 (response to interrogatory USPS/OCA-T100-59(c)).

¹¹⁵ USPS-T-8 at 106, line 19.

¹¹⁶ Tr. 4/1116 (response to interrogatory OCA/USPS-T8-35).

¹¹⁷ USPS-T-8 at 109.

manufacturing costs," given the "whole-cent constraint."¹¹⁸

Perforce, there is no question that the two-cent stamped card fee that will be charged purchasers of postal cards is comprised, primarily, of manufacturing costs.

Witness Needham's protests notwithstanding, she **has** double counted the manufacturing costs of postal cards. Witness Patelunas confirms that GPO manufacturing costs are already included in the attributable costs of postal cards,¹¹⁹ and it is reaffirmed by witness Needham.¹²⁰ The Cost Segments and Components Report (USPS-T5, WP-A, section 16.1, column 1, page 49) shows these costs as a line item. Furthermore, witness Patelunas confirms that no manufacturing costs were treated other than as attributable. Tr. 2/251.

In short, the costs of ancillary supplies provided to postal card purchasers (e.g., stationery) are already attributed to such cards. These costs are included in the current 20-cents postage paid by postal card mailers. An additional fee to cover **the same costs** cannot be condoned.

¹¹⁸ Id. at 107.

¹¹⁹ Tr. 2/251 (response to interrogatory OCA/USPS-T5-10).

¹²⁰ Tr. 4/1119 (response to interrogatory OCA/USPS-T8-37); i.e., she confirmed that "the postal card manufacturing costs identified in Table XXIX [of her testimony] were attributed to postal cards" from 1989-1996 (YTD).

2. It is uneconomic to discourage the use of postal cards since they are significantly less costly to process than post cards

The per-piece cost for postal cards is 7.5 cents, according to Exhibit USPS-T-5C at 10. By contrast, the per-piece cost, in the same exhibit, for private cards, is more than double that of postal cards—16.2 cents. Witness Patelunas gives several plausible reasons for the large differences in unit costs between postal and private cards:¹²¹

Part of the explanation may be that postal cards are less costly to process because they are more compatible with mechanization and automation. For example, postal cards are designed to a uniform size and shape for equipment compatibility, and private cards are various sizes, shapes and flexibility. Also, address hygiene may be better considering the uses of postal cards and private cards. . . . Private cards . . . might be used to send greetings from a vacation spot and as such, would probably be handwritten and less clean. . . .

It is also possible that postal cards are misidentified as private cards during data collection.

With respect to the latter observation—that postal cards may be misidentified as private cards—witness Sherman explains that this misidentification causes the already large difference between the unit costs of postal and private cards to be understated:¹²²

¹²¹ Tr. 2/252-53 (response to interrogatory OCA/USPS-T5-11).

¹²² Tr. 7/2365 (response to interrogatory USPS/OCA-T100-28).

[I]f data collectors are misclassifying postal cards as private cards in both the cost estimating systems and the volume estimating systems, then the reported unit cost for postal cards is basically undistorted, but the reported unit cost for private cards is too low.

Witness Sherman is concerned about the effect "on costs of encouraging greater use of a less efficient mailstream, namely private cards, by lowering its price relative to postal cards."¹²³

Furthermore, witness Collins explains that, with an average revenue per piece of 19.7 cents, the present implicit cost coverage of postal cards is 263 percent.¹²⁴ If a two-cent fee is added to the postage charged, the implicit cost coverage exceeds 289 percent.¹²⁵ Witness Needham's testimony and analysis obscure this excessively high cost coverage figure by limiting her discussion of the cost coverage imposed on stamped card users to the 170-percent cost coverage calculated for the new special service fee.¹²⁶

OCA's position is best stated in witness Collins' testimony:¹²⁷

[I]t would be unconscionable to approve a rate increase, in the guise of a "new special service," to a

¹²³ Tr. 7/2401 (response to interrogatory USPS/OCA-T100-53).

¹²⁴ Tr. 5/1712 (OCA-T-400 at 23).

¹²⁵ Id.

¹²⁶ See id. at 1713 and 24, respectively.

¹²⁷ Tr. 5/1714 (OCA-T-400 at 25).

rate category which is already making one of the largest contributions to institutional costs of any category of mail. I recommend that the Commission not institute this new special service and its attendant fee.

IV. THE PROPOSALS OF THE OCA ARE SUPERIOR TO THOSE OF THE POSTAL SERVICE

A. The OCA's proposed post office box fees are reasonable and promote fairness and equity in the pricing of boxes

1. OCA's test year cost coverage for post office boxes is virtually equal to the test year cost coverage at current fees

An underlying principle of the Postal Service's initial approach to classification reform was a cost coverage that was contribution neutral.¹²⁸ In keeping with this principle, the OCA's proposed box fees are designed to produce a cost coverage that is contribution neutral. The resulting cost coverage is virtually the same as the cost coverage recommended by the Commission in the test year under current fees.

Under the OCA's proposal, fee changes for post office box and caller service produce a cost coverage of 101 percent and net revenues of \$5.5 million. Tr. 5/1546. The cost coverage in the test year at the Commission's recommended fees is 100 percent. USPS-T-1, Exhibit C. By contrast, the Postal Service's revenues from post office box and caller service result in a cost coverage of 128 percent. Id.

¹²⁸ See the testimony of OCA witness Thompson, OCA-T-200, Tr. 5/1351-68.

The OCA's fee proposal clearly qualifies as "contribution neutral," since, in MC95-1, the Commission believed it had maintained contribution neutrality when recommending net revenues of \$25 million. PRC Op. MC95-1, Appendix F. While Witness Callow's post office box proposal generates \$5.5 million of additional net revenue from post office box fees, the overall effect of all OCA proposals is a minuscule decrease in net revenues of \$0.5 million. Appendix B, *infra*. Clearly, the OCA post office box proposal (and all OCA proposals) are consistent with the Commission's measures for effecting contribution neutrality.

By proposing a test year cost coverage that is virtually the same as the Commission's in the test year at current fees, witness Callow has effectively adopted the Commission's value of service determinations for post office boxes. Re-examination of the value of service of post office boxes relative to carrier service, and other postal services, is appropriate only in an omnibus rate case.¹²⁹

¹²⁹ See the testimony of OCA witness Sherman, OCA-T-100, Tr. 7/2270-2305.

2. OCA's post office box proposal appropriately relies on Postal Service accept rates and elasticities to derive changes in post office box usage

Under the OCA and Postal Service proposals, estimated post office box revenues (and cost coverage) depend on the likely response of current and potential boxholders to proposed fee changes. Postal Service witness Ellard obtains accept rates from a market research survey of current boxholders for fee increases only. From the survey results, witness Lyons develops adjusted accept rates by choosing the midpoint between the survey accept rates and 100 percent acceptance. USPS-T-1, WP C at 4-5. Both OCA and the Postal Service rely on these adjusted accept rates and resulting elasticities to measure changes in box usage resulting from proposed fee increases and decreases. See OCA-LR-3 at 5; and, USPS-T-1, WP C at 2-3.

The Postal Service would have the Commission believe that OCA's use of the adjusted accept rates and elasticities is inappropriate. On rebuttal, witness Lion identifies (in his view) a "critical assumption" underlying OCA's box fee proposal: that is, the elasticity of new boxholders, attracted by OCA's proposed lower fees, "is identical to the elasticity of existing boxholders." Tr. 9/3539 (emphasis original). He adds that

"logic would suggest" these two populations differ, giving rise to the belief that "demand for post office boxes may well be asymmetrical." Tr. 9/3539-40. Consequently, the Postal Service claims OCA's estimated increase in box usage from potential new boxholders "will not materialize," (Tr. 9/3355), causing OCA's cost coverage to fall below 100 percent.¹³⁰

In developing its fee proposal, OCA made a perfectly reasonable assumption. OCA witness Callow relied on the only record information concerning price sensitivity; that is, the adjusted accept rates (and resulting elasticities) developed by witness Lyons, rather than produce alternative accept rates. As stated by witness Callow, it was reasonable to assume "that box volumes would increase with a decrease in price and we used the elasticity . . . to show what the change in volume would be." Tr. 5/1618.

The Postal Service's concerns about witness Callow's assumption are unfounded. First, the Postal Service's apparent reservation, i.e., that the response of potential new boxholders to a fee decrease would differ from the response of existing boxholders to a fee increase, is not established on this record.

¹³⁰ Tr. 9/3539. The reasonableness of OCA's cost coverage for post office boxes is discussed *infra* at section IV.A.3.a.

The Postal Service's market research did not survey potential new boxholders.¹³¹

Second, OCA's use of the adjusted accept rates and resulting elasticities produces an estimated 75,898 new boxholders,¹³² a patently reasonable figure. It represents an increase of less than one-half of one percent (0.42) of the 18,020,243 boxes now in use. Id. Nor is it unreasonable in light of the historic response of boxholders to previous fee increases, when boxes rented have not declined but increased "significantly."¹³³

Third, the universe of potential new boxholders is vastly larger than existing boxholders. And the Postal Service is advertising box service to a nationwide audience with its new Post Office Box Awareness Campaign, which might "also attract new post office box service customers."¹³⁴ A small response from this vastly larger universe could easily produce the small increase in new boxholders estimated by OCA. Even witness Lyons admits that

¹³¹ Tr. 9/3539. Witness Ellard collected data from potential boxholders on waiting lists, but declined to draw any inferences from the small data sample obtained. Tr. 2/348.

¹³² OCA-LR-3 at 3.

¹³³ Tr. 2/216. If box volumes increase in response to a fee increase, why wouldn't they increase even more markedly in response to a fee decrease?

¹³⁴ Notice Of United States Postal Service Of Filing Of Library Reference LR-SSR-162, December 20, 1996, at 1. See also Tr. 9/3412-13.

lower fees would attract some new boxholders "on the margin."

Tr. 9/3386-87.

3. OCA's cost coverage is reasonable compared to the Postal Service's unrealistically low cost coverage

- a. Witness Lion misrepresents OCA's 101 percent cost coverage as an upper bound

On rebuttal, witness Lion analyzes the sensitivity of the cost coverage generated by witness Callow's post office box proposal assuming various alternative accept rates. He states that the OCA's proposal represents an "upper bound" on cost coverage because of its use of the Postal Service's accept rates and resulting elasticities. Witness Lion also produces a "lower bound" on cost coverage expected from the OCA's proposal by setting elasticities to zero for fee decreases.¹³⁵ His use of alternative accept rates produces a range of cost coverages between 95 and 101 percent. Tr. 9/3543.

Witness Lion's characterization of the 101 percent cost coverage under OCA's proposal as an "optimistic upper limit" is not correct. Tr. 9/3603. OCA's 101 percent cost coverage is

¹³⁵ Tr. 9/3542. A version of this lower bound was originally introduced during oral cross-examination of witness Callow. Tr. 5/1626.

obtained by applying elasticities derived from the Postal Service's accept rates to OCA's fee increases and fee decreases.

During cross-examination on rebuttal, witness Lion provides an explanation why the upper bound must really be larger than 101 percent. There, he points out that a 100 percent accept rate (representing zero elasticity) would create an upper bound on cost coverage for fee increases and a lower bound on cost coverage for fee decreases. Tr. 9/3582-83. (Similarly, using the Postal Service's accept rates would create an upper bound on cost coverage for fee decreases and a lower bound on cost coverage for fee increases.) Thus, to produce a true upper bound for OCA's proposal, a 100 percent accept rate must be assumed for OCA's fee increases.

Witness Lion did not make this assumption in his cost coverage sensitivity analysis of OCA's fee increases for box size 5 in Groups IA and IB, and all box sizes in Group II. Consequently, OCA's 101 percent cost coverage can not possibly be an upper bound. If the spreadsheet underlying the "upper bound" column in USPS-RT-3, Table 4 is appropriately modified so that a

zero elasticity is applied to OCA's fee increases, the upper bound is actually 104 percent.¹³⁶

Again, the Postal Service has deliberately understated OCA's cost coverage to place OCA's proposal in the worst light. If an upper bound on cost coverage is correctly defined, it turns out OCA's 101 percent cost coverage is reasonable, occupying the middle portion of an interval defined by the lower bound of 95 percent and the upper bound of 104 percent.

- b. Witness Lion's sensitivity analysis, applied to the Postal Service's proposal, reveals a material underestimation of box revenues and cost coverage by the Postal Service

According to witness Lyons' testimony, the Postal Service's post office box and caller service proposal represents nearly 40 percent of the net revenue of \$339.4 million. USPS-T-1 at 8-9. It is important to realize that the additional revenue from boxes is calculated under the most pessimistic of assumptions regarding boxholders' acceptance of fee increases. Those assumptions produce a cost coverage of only 128 percent. Under more optimistic (and more realistic) assumptions, both revenues and cost coverage would be much higher.

¹³⁶ See Appendix A to this brief. Appendix A simply presents spreadsheet OCA.XLS from LR-SSR-158 with elasticities set to zero for OCA box fee increases.

Witness Lion's cost coverage sensitivity analysis, if applied even-handedly to the Postal Service's proposal, could be used to produce an upper and lower bound on cost coverage under the Service's proposal. Following witness Lion's logic, an upper bound is produced by simply using a 100 percent accept rate for fee increases. This may appear optimistic, but history indicates that it is a plausible assumption. According to the Postal Service, "an analysis of post office box usage after the increases of 8 percent in 1985 and 34 percent in 1988 shows little or no decline in post office box usage." USPS-T-1, Appendix at A2. Moreover, the number of rented boxes "have in fact increased significantly between every case" Tr. 2/216.

Using a 100 percent accept rate to produce the upper bound causes total revenue to jump from \$652.2 million¹³⁷ to \$779.4 million—an increase of \$127.2 million—resulting in a cost coverage of about 147 percent. Tr. 9/3592. Using the adjusted accept rates that are midway between those obtained from witness Ellard's survey results and 100 percent acceptance produces the

¹³⁷ USPS-T-1, WP C at 2-3. Revenues from resident boxholders and caller service (\$519 million) plus nonresident boxholders (\$138.6 million), less revenues loss from elimination of Group II fees (\$5.4 million).

lower bound on cost coverage for the Postal Service's proposal, 128 percent.¹³⁸

Witness Lion's sensitivity analysis reveals that the Postal Service's proposal could generate considerable additional revenue and a much higher cost coverage. The additional box revenues resulting from more optimistic assumptions, holding all other special service fees at proposed levels, would produce nearly \$127 million in excess of the \$339 million projected by the Postal Services. The analysis also suggests the Postal Service may be misleading (by intent or not) the Commission. The Postal Service is likely underestimating the revenue to be generated by its post office box proposal. Clearly, if more realistic assumptions are used, the Postal Service can achieve its revenue goal and cost coverage from boxes with smaller fee increases.

¹³⁸ USPS-T-1, Exhibit C. Witness Lion disagrees that this is the lower bound for the Postal Service's proposal. Tr. 9/3595. However, as stated *supra*, the accept rate used to produce a lower bound for fee decreases would produce the upper bound for fee increases. Tr. 9/3582-83. Since he uses those accept rates to produce upper bounds for fee decreases, it is reasonable to use them to produce lower bounds for fee increases.

4. OCA's proposed fees create a more fair and equitable allocation of institutional costs

- a. Fairness and equity are enhanced by reducing the disparity in cost coverages by group

In contrast to the Postal Service fee proposal, OCA's proposed box fees significantly reduce the disparity in cost coverage by group, creating a more fair and equitable fee schedule. OCA-proposed fee decreases reduce the cost coverage in Group IC, bringing it closer to the cost coverage for Groups IA and IB. Tr. 5/1541. The result is to reduce the substantial reliance on Group IC to cover institutional costs, as compared to Groups IA, IB, and II. Proposed fee increases for Group II raise the cost coverage to 67 percent. Id. While still below cost, the proposed fees move the Group II cost coverage closer to a positive contribution to institutional costs.

- b. Fairness and equity are enhanced by reducing the disparity in cost coverages by box size

Unlike the Postal Service's fee proposal, OCA's proposed box fees reduce the disparity in cost coverage by box size. Under OCA's proposed fees, cost coverages decline from the smallest to the largest boxes, except in Group II. Tr. 5/1541. This declining cost coverage by box size consistently promotes the use

of larger box sizes by reducing the relative share of institutional costs borne by successively larger boxes. The fee changes also reduce reliance on middle size boxes for the largest contribution to institutional costs, thereby creating a more fair and equitable fee schedule.

B. The Proposed Classification Change For Return Receipt Mail Should Be Adopted, But At The Current Fee Of \$1.10

1. Imposition of a substantial fee increase in exchange for a return receipt option that most purchasers do not want is unfair

The Postal Service proposes to merge the two return receipt options currently available—1) to whom and date delivered and 2) to whom, date delivered, and address—into a single service category. As proposed, all purchasers of return receipt service will receive information on to whom and date delivered, and the delivery address only if it is different from the address on the mailpiece. Witness Needham correctly states that "the change would provide better service to customers who do not request delivery address information."¹³⁹ Witness Collins agreed that "the proposal improves address hygiene (albeit only slightly)."¹⁴⁰ Hence OCA supports the classification change.

¹³⁹ USPS-T-8 at 86.

¹⁴⁰ Tr. 5/1709 (OCA-T-400 at 20).

However, witness Collins stresses in her testimony that the service benefits for those purchasers who, formerly, chose the no-address option may be of little value: "98 percent of non-merchandise return receipt users currently do not request the delivery address;"¹⁴¹ consequently, the public has demonstrated a marked lack of interest in purchasing this feature for \$1.50.

Witness Sherman expresses strong disapprobation of the attempt to withdraw a service which almost all return receipt purchasers elect, forcing them to choose a service that they seemingly do not need or want, and then charge them a substantially larger fee for the unwanted service. He testifies:¹⁴²

Eliminating the lower price option of choosing date and name only would have the effect of forcing all users to the higher price service level that includes address information, so it will effectively be a price increase for those who had selected only date and name information before. Since roughly 90 percent of the current volume falls in the date and name category that is being eliminated, the effect is essentially like a price increase, and a substantial one.

¹⁴¹ Tr. 5/1705 (OCA-T-400 at 16).

¹⁴² Tr. 7/2291 (OCA-T-100 at 20).

2. The cost of the minor service enhancement is so small that the new service can (and should) be offered at the current price of \$1.10

The modest service enhancement provided by the proposed classification change neither justifies nor requires an increase in the return receipt fee—and certainly not one of the magnitude proposed by witness Needham. Witness Needham confirms that providing customers with the “address if different option” will increase the average unit cost of return receipt by only one cent.¹⁴³ Witness Collins demonstrates, in her direct testimony, that one cent is actually the upper bound for increased costs.¹⁴⁴ The lower bound for the cost increase is a negligible 0.27 cents.¹⁴⁵ In summary, OCA recommends the proposed classification change because of the slight service enhancement, but only at the current fee of \$1.10, since the public places a very low value on the address option and the increased cost is insignificant.

¹⁴³ The precise weighted average unit cost of providing the “address if different” option is 0.87 cents, calculated from LR-SSR-104 and based upon an assumption that 2.69 percent of return receipt pieces would require forwarding. Tr. 8/2978 (Postal Service institutional response to interrogatory OCA/USPS-T8-41). See also witness Needham’s oral testimony at Tr. 4/1180 and 1183.

¹⁴⁴ Tr. 5/1707 (OCA-T-400 at 18).

¹⁴⁵ Id. at 1708 and 19, respectively.

Respectfully submitted,

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APPENDIX A

UPPER BOUND ON OCA'S POST OFFICE BOX PROPOSAL COST COVERAGE

CONTRIBUTION & COST COVERAGE
(Corrected upper bound scenario)

		TYBR Boxholders	TYAR Boxholders	TYBR Unit Cost	TYAR Unit Cost	Current Fees	Proposed Fees	TYBR Revenues	TYAR Revenues	TYBR Costs	TYAR Costs	TYAR Contribution	TYAR Cost Coverage
Group	Box Size	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]
I-A	1	35,409	35,409	\$43 41	\$41 10	\$48 00	\$48 00	\$1,699,632	\$1,699,632	\$1,537,107	\$1,455,387	\$244,245	117%
	2	2,236	2,381	\$61 75	\$58 30	\$74 00	\$66 00	\$165,464	\$157,157	\$138,070	\$138,832	\$18,325	113%
	3	1,239	1,269	\$116.76	\$109.91	\$128 00	\$122 00	\$158,592	\$154,819	\$144,671	\$139,477	\$15,342	111%
	4	129	129	\$226 80	\$213 12	\$210 00	\$210 00	\$27,090	\$27,090	\$29,257	\$27,493	(\$403)	99%
	5	38	38	\$446 86	\$419.55	\$348 00	\$410 00	\$13,224	\$15,580	\$16,981	\$15,943	(\$363)	98%
	ALL	39,051	39,226	\$47 79	\$45.30	\$52 85		\$2,064,002	\$2,054,278	\$1,866,086	\$1,777,131	\$277,147	116%
I-B	1	63,586	63,586	\$38 98	\$36 95	\$44 00	\$44 00	\$2,797,784	\$2,797,784	\$2,478,387	\$2,349,642	\$448,142	119%
	2	14,735	15,542	\$55 10	\$52 08	\$66 00	\$60 00	\$972,510	\$932,529	\$811,883	\$809,422	\$123,107	115%
	3	5,385	5,435	\$103 47	\$97 46	\$112 00	\$110 00	\$603,120	\$597,815	\$557,159	\$529,664	\$68,151	113%
	4	843	843	\$200 20	\$188 22	\$190 00	\$190 00	\$160,170	\$160,170	\$168,766	\$158,671	\$1,499	101%
	5	911	911	\$393 66	\$369 75	\$310 00	\$358 00	\$282,410	\$326,138	\$358,626	\$336,838	(\$10,700)	97%
	ALL	85,460	86,317	\$51 19	\$48 48	\$56 35		\$4,815,994	\$4,814,436	\$4,374,821	\$4,184,237	\$630,199	115%
I-C	1	4,558,877	5,034,741	\$28 15	\$26 81	\$40 00	\$32 00	\$182,355,080	\$161,111,706	\$128,322,151	\$135,004,966	\$26,106,740	119%
	2	1,928,614	2,230,456	\$38 86	\$36 87	\$58 00	\$43 00	\$111,859,612	\$95,909,590	\$74,936,684	\$82,243,358	\$13,666,232	117%
	3	641,776	731,047	\$70 98	\$67 05	\$104.00	\$76 00	\$66,744,704	\$55,559,565	\$45,551,681	\$49,014,900	\$6,544,665	113%
	4	137,917	150,345	\$135 22	\$127.40	\$172 00	\$142 00	\$23,721,724	\$21,349,035	\$18,649,442	\$19,153,519	\$2,195,517	111%
	5	29,183	30,021	\$263.71	\$248 10	\$288 00	\$272 00	\$8,404,704	\$8,165,615	\$7,695,895	\$7,447,985	\$717,630	110%
	ALL	7,296,367	8,176,609	\$37.71	\$35 82	\$53.87		\$393,085,824	\$342,095,511	\$275,155,852	\$292,864,727	\$49,230,784	117%
II	1	5,141,274	5,141,274	\$25 96	\$24 76	\$8 00	\$16 00	\$41,130,192	\$82,260,384	\$133,456,603	\$127,322,003	(\$45,061,619)	65%
	2	2,065,039	2,065,039	\$35 57	\$33 80	\$13 00	\$26 00	\$26,845,507	\$53,691,014	\$73,454,258	\$69,793,972	(\$16,102,958)	77%
	3	534,762	534,762	\$64 41	\$60 90	\$24.00	\$48.00	\$12,834,288	\$25,668,576	\$34,442,915	\$32,565,691	(\$6,897,115)	79%
	4	44,584	44,584	\$122 08	\$115 10	\$35 00	\$70 00	\$1,560,440	\$3,120,880	\$5,442,949	\$5,131,477	(\$2,010,597)	61%
	5	4,972	4,972	\$237 43	\$223 50	\$55.00	\$110 00	\$273,460	\$546,920	\$1,180,518	\$1,111,219	(\$564,299)	49%
	ALL	7,790,631	7,790,631	\$31.83	\$30 28	\$10.61		\$82,643,887	\$165,287,774	\$247,977,241	\$235,924,383	(\$70,636,589)	70%
III	1 to 5	2,707,984	2,707,984			\$2.00	\$0 00	\$5,415,928	\$0			\$0	
TOTAL		17,919,473	18,800,747					\$488,025,635	\$514,251,998	\$529,374,000	\$534,750,459	(\$20,498,460)	96%
Caller Service		100,770	101,660					\$35,149,116	\$34,463,703			\$34,463,703	
Reserved		178,717	178,717			\$30 00	\$30 00	\$5,361,510	\$5,361,510			\$5,361,510	
GRAND TOTAL		18,198,960	19,081,124					\$528,536,261	\$554,077,211	\$529,374,000	\$534,750,459	\$19,326,752	104%

CALLER SERVICE ANALYSIS

Delivery Group													
IA	1,507	1,507			\$500	\$500	\$753,500	\$753,500					
IB	1,373	1,373			\$480	\$480	\$659,040	\$659,040					
IC	65,251	65,251			\$450	\$450	\$29,362,950	\$29,362,950					
II	32,639	33,529			\$134	\$110	\$4,373,626	\$3,688,213					
CS TOTAL	100,770	101,660	\$287 54	\$287 54			\$35,149,116	\$34,463,703	\$28,974,905	\$29,230,870	\$5,232,832	118%	

TYAR BOXHOLDERS
(Annual)

POST OFFICE BOXES		TYBR No. of Boxholders	Fraction of Boxes in Use	No. of Boxes Available	USPS Accept Rate	USPS Percent Increase	Elasticity	Current Box Fees	Proposed Box Fees	Percent Change	TYAR Boxholders	USPS TYAR Boxholders
Delivery Group	Box Size	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]
IA	1	35,409	0.74	47,850	0.87	25%	-0.521909	\$48.00	\$48.00	0%	35,409	30,789
	2	2,236	0.83	2,694	0.85	24%	-0.6005231	\$74.00	\$66.00	-11%	2,381	1,909
	3	1,239	0.79	1,568	0.87	25%	-0.5166564	\$128.00	\$122.00	-5%	1,269	1,079
	4	129	0.81	159	0.92	15%	-0.5166564	\$210.00	\$210.00	0%	129	119
	5	38	0.55	69	0.90	20%	0	\$348.00	\$410.00	18%	38	34
	ALL	39,051	0.75	52,341							39,226	33,930
IB	1	63,586	0.74	85,927	0.87	27%	-0.4784166	\$44.00	\$44.00	0%	63,586	55,289
	2	14,735	0.83	17,753	0.85	24%	-0.6025519	\$66.00	\$60.00	-9%	15,542	12,583
	3	5,385	0.79	6,816	0.87	25%	-0.5166564	\$112.00	\$110.00	2%	5,435	4,689
	4	843	0.81	1,041	0.92	15%	-0.5166564	\$190.00	\$190.00	0%	843	779
	5	911	0.55	1,856	0.90	20%	0	\$310.00	\$358.00	15%	911	817
	ALL	85,460	0.75	113,194							86,317	74,157
IC	1	4,558,877	0.74	6,160,645	0.87	25%	-0.521909	\$40.00	\$32.00	-20%	5,034,741	3,964,047
	2	1,928,614	0.83	2,323,631	0.85	24%	-0.6051604	\$58.00	\$43.00	-26%	2,230,456	1,646,895
	3	641,776	0.79	812,375	0.87	25%	-0.5166564	\$104.00	\$76.00	-27%	731,047	558,882
	4	137,917	0.81	170,268	0.95	10%	-0.5166564	\$172.00	\$142.00	-17%	150,345	130,460
	5	29,183	0.55	53,060	0.98	4%	-0.5166564	\$288.00	\$272.00	-6%	30,021	28,555
	ALL	7,296,367	0.77	9,519,979							8,176,609	6,328,839
II	1	5,141,274	0.74	6,947,668	0.92	100%	0	\$8.00	\$16.00	100%	5,141,274	4,704,526
	2	2,065,039	0.83	2,487,999	0.86	100%	0	\$13.00	\$26.00	100%	2,065,039	1,784,534
	3	534,762	0.79	676,914	0.85	100%	0	\$24.00	\$48.00	100%	534,762	453,368
	4	44,584	0.81	55,042	0.85	100%	0	\$35.00	\$70.00	100%	44,584	37,798
	5	4,972	0.55	9,040	0.85	100%	0	\$55.00	\$110.00	100%	4,972	4,215
	ALL	7,790,631	0.77	10,176,662							7,790,631	6,984,441
TOTAL		15,211,509									16,092,783	13,421,367
CS II	5	32,639	n/a		0.58427198	273%	-0.1522813	\$134.00	\$110.00	-18%	33,529	19,070

Notes

- [1] Sheet TYBR, Column [1]
 [2] USPS-T-4, Table 5, Page 8
 [3] = [1] / [2]
 [4] USPS-T-1 WP C, Page 2, Column [3]
 [5] USPS-T-1 WP C, Page 2, Column [6]
 [6] if fee increase, then =0, else = (1 - [4]) / [5]

- [7] Sheet TYBR, Column [3].
 [8] Sheet Cost Coverage, Column [6]
 [9] = [8] / [7] - 1
 [10] = [1] * (1 + [6] * [9])
 [11] = [1] * [4]

APPENDIX B

NET EFFECT ON TEST YEAR COSTS AND REVENUES OF OCA PROPOSALS

NET EFFECT ON TEST YEAR COSTS AND REVENUES OF OCA PROPOSALS

The OCA's proposal reflects the rejection of the following Postal Service proposals: Postal Cards, non-resident boxholder fee, Certified mail, and return receipt. The OCA's proposal reflects acceptance of both the Postal Service's insurance proposal and elimination of special delivery. The OCA's proposals produce \$0.5 million less in net income than would occur in the test year without any changes. This results from an after rates increase in revenue of \$22.0 million and an increase in costs of \$22.5 million.

Total Postal Service test year after rate (TYAR) volumes are 185,948,722,000. Total OCA TYAR volumes are 185,970,894,000. The difference is 22,172,000. Rejection of the Postal Service's Postal Card proposal increases OCA's TYAR volumes by 7,316,000. Rejection of the Postal Service's Certified mail proposal increases OCA's TYAR volumes by 11,810,000. The OCA's P.O. Box proposal increases box volumes by 3,046,000. Rejection of the Postal Service's return receipt proposal does not impact mail volumes; it only impacts the number and type of return receipt transactions.

The Postal Service's test year before rate (TYBR) rate revenue is \$56,704.911 million. The OCA's TYAR revenue is

\$56,726.879 million. The difference is \$21.968 million. OCA's P.O. Box proposal increases revenues by \$6.787 million. Acceptance of the Postal Service's insurance proposal increases revenues by \$13.519 million. The Postal Service's forecasted decline in registry volumes is not disputed by the OCA and is reflected in the (\$1.453) million revenue decline. Acceptance of the Postal Service's request to eliminate special delivery service produces a revenue decline of (\$2.086) million. Total other mail revenues increase by \$5.2 million and include a revenue increase of \$1.441 million in Priority mail, primarily due to increased volumes resulting from the Postal Service's insurance proposal. Express mail revenues increased by \$2.587 million -- a result of volumes migrating from special delivery and the acceptance of the Postal Service's insurance proposal (USPS-T-1, WP E, page 3). A revenue increase of \$1.172 million results from an increase in total First-Class revenues of \$0.024 million and total Fourth-class of \$1.149 million, and a revenue decline in Third-Class single piece of (\$0.001) million. (May not total due to rounding.)

The Postal Service's TYBR cost is \$55,995.945 million. The OCA's TYAR cost is \$56,018.485 million. The difference is \$22.54 million. OCA's TYAR P.O. Box proposal increases costs by \$0.458

million. Rejection of the Postal Service's Certified mail proposal and inclusion of the effect of the OCA's P.O. Box proposal results in a Certified mail cost increase of \$0.70 million. Acceptance of the Postal Service's insurance proposal increases attributable costs by \$7.94 million. The Postal Service's forecasted decline in registry is reflected in a cost decline of (\$0.783) million. Elimination of special delivery lowers costs by (\$1.753) million. Total mail and other costs increase by \$15.978 million. The \$15.978 million includes a cost increase of \$6.715 million due to Postal Service's insurance proposal. Total mail cost increases \$9.635 million and reflects the changes in the Postal Service's TYBR and the OCA's TYAR volumes. Special services not specifically mentioned reflect cost decreases of (\$0.372) million.

OCA Hypothetical Annual Impact of Special Services Rate Initiatives on FY 1996 Estimated Net Income (Loss)
(Dollars in Millions)

	Before Rates	PO Boxes	Certified Mail	Return Receipt	Insurance	Stamped Cards	Registry	Special Delivery	Mail & Other	Subtotal Change	After Rates
Mail, Services, & Misc. Income	56,704.911	6.787	-	-	13.519	-	(1.453)	(2.086)	5.200	21.967	56,726.878
Appropriation	93.080										93.080
Total Operating Revenue	56,797.991	6.787	-	-	13.519	-	(1.453)	(2.086)	5.200	21.967	56,819.958
Interest Income	133.040									0.051	133.091
Total Revenue	56,931.031	6.787	-	-	13.519	-	(1.453)	(2.086)	5.200	22.018	56,953.049
Total Expense	55,995.945	0.458	0.700	-	7.940	-	(0.783)	(1.753)	15.980	22.542	56,018.487
Net Income (Loss)	935.086	6.329	(0.700)	-	5.579	-	(0.670)	(0.333)	(10.780)	(0.524)	934.562

Note: Error in USPS filename MXARSS.xls, worksheet "carriers", cell J25.

Sources: OCA filename OCAPROP.xls & USPS-T-1, Workpaper F & USPS-T-1, Exhibit A + Special
Handling Revenue USPS excluded

OCA Exhibit A Expense Workpaper
Comparison of Before & After Rates Expenses
\$ in Millions

	Before Rates	After Rates	Chg From BR
First Class	19,170.537	19,175.454	4.917
Priority Mail	1,619.835	1,621.219	1.384
Express Mail	536.813	537.693	0.880
Mailgrams	0.790	0.788	(0.002)
Second Class	1,785.158	1,784.337	(0.821)
Third Class	7,767.260	7,769.644	2.384
Fourth Class	1,346.938	1,347.914	0.976
Blind/Overseas Voters	29.605	29.351	(0.254)
International	1,360.291	1,360.464	0.173
Total Mail	33,617.227	33,626.864	9.637
Registry	73.106	72.323	(0.783)
Certified	297.811	297.881	0.070
Insurance	34.254	42.194	7.940
COD	20.799	20.712	(0.087)
Special Delivery	1.753	-	(1.753)
Money Orders	195.446	195.640	0.194
Stamped Envelopes	14.651	14.655	0.004
Special Handling	4.712	4.716	0.004
Post Office Box	529.374	529.832	0.458
Other	219.910	220.053	0.143
Total Special Services	1,391.816	1,398.006	6.190
Total Attributable	35,009.043	35,024.870	15.827
Other	20,986.902	20,993.617	6.715
Less: Return Receipt	227.423	227.423	0
Other Less RR	20,759.479	20,766.194	6.715
Total Costs	55,995.945	56,018.487	22.542

Sources: OCA Exhibit OCAPROP.xls & USPS-T-1, Workpaper F

OCAPROP.xls

WORKSHEET 2									
TYAR MAIL VOLUME DIVERTED INTO PO BOXES RESULTING FROM OCA PO BOX PROPOSAL									
(000)									
		(1)	(2)	(3)	(4)				
		FY 1996 Volume	PO Box	Non POB	0.00421	4/			
		After Rates	1/	2/	3/	POB In	5/		
Line #	CRA Line Number & Title								
1	101. LETTER NP	54,841,137		6,604,058	48,237,079	27,815			
2	LETTER 5-DIGIT	34,984,069							
3	LETTER C-RTE	3,199,666							
4	102. TOTAL PRESORT	38,183,735		3,120,543	35,063,192	13,143			
5	103. POSTAL CARD	428,618		51,615	377,003	217			
6	104. P-CARD NONPRST	2,725,342		328,190	2,397,152	1,382			
7	P-CARD 5-DIGIT	1,590,888							
8	P-CARD C-RTE	431,730							
9	105. TOTAL PRST CDS	2,022,618		165,297	1,857,321	696			
10	107. TOTAL FIRST	88,201,450		10,269,703	87,931,747	43,254			
11	110. PRIORITY	975,743		77,148	898,595	325			
12	111. EXPRESS	57,458		5,607	51,851	24			
13	112. MAILGRAM	3,261		318	2,943	1			
14	113. WITHIN COUNTY	950,719		92,782	857,937	391			
15	118. 2ND NONPROFIT	2,228,611		217,493	2,011,118	916			
16	119. CLASSROOM	73,592		7,182	66,410	30			
17	117. 2ND REGULAR	6,889,248		672,331	6,216,917	2,832			
18	123. TOTAL SECOND	10,142,170		989,788	9,152,382	4,169			
19	125. 3RD SINGLE PC	111,864		12,045	99,819	51			
20	REG NONPRST	6,332,819							
21	126. REG C-RTE	30,153,131		756,344	29,396,787	3,186			
22	REG 5-DIGIT	23,961,755							
23	127. TOT REG OTHER	30,294,574		3,141,250	27,153,324	13,230			
24	128. TOTAL REGULAR	60,447,705		3,797,128	56,650,577	15,993			
25	NONPROF NPRST	3,106,846							
26	131. NONPROF. C-RTE	3,184,347		70,453	3,113,894	297			
27	NONPROF 5-DIGIT	6,108,199							
28	132. TOT	9,215,045		733,293	8,481,752	3,088			
29	133. TOT NONPROFIT	12,399,392		803,746	11,595,646	3,385			
30	135. TOTAL THIRD	72,958,961		4,612,918	68,346,043	19,429			
31	PPOST INTER								
32	PPOST INTRA	224,817							
33	136. TOT ZONE RATE	224,817		12,594	212,223	53			
34	137. BND PRNT MATTER	525,693		28,481	497,212	120			
35	139. SPECIAL 4TH	242,740		13,151	229,589	55			
36	140. LIBRARY RATE	22,800		1,235	21,565	5			
37	141. TOTAL FOURTH	1,016,050		55,461	960,589	234			
38	142. USPS PENALTY	407,071		39,727	367,344	167			
39	147. FREE BLIND	55,522		5,418	50,104	23			
40	161. TOT INTERNAT'L	809,136		78,965	730,171	333			
41	162. TOT ALL MAIL	184,626,822		16,135,054	168,491,768	67,958			
42	163. REGISTRY	18,917		1,846	17,071	8			
43	165. INSURANCE	28,827		2,813	26,014	12			
44	164. CERTIFIED	289,613		28,264	261,349	119			
45	166. COD	4,767		465	4,302	2			
46	168. MONEY ORDERS	199,221		19,442	179,779	82			
47	167. SPEC DELIVERY	0		0	0	0			
48	169. STMPD ENVEL	784,384		0	0	0			
49	170. SPEC HNDLG	247		0	0	0			
50	171. P.O. BOX	18,096		0	0	0			
51	172. OTHER	0		0	0	0			
52	173. TOT SPECIAL SVS	1,344,072		131,169	488,514	223			
53	198. TOTAL	185,970,894		16,266,223	168,980,282	68,181			
54	199. OTHER	0		0	0	0			
55	200. GRAND TOTAL	185,970,894		16,266,223	168,980,282				
Footnotes:									
1/	USPS-T-5, Ex D, pg 6, USPS-T-1, WP E, pg 3, adj for OCA proposal				4/	OCA-LR-3 at 3, USPS-T-4,			
2/	USPS-T-5, Appendix B, at 2,					Table 14, at 37; and			
	(Col 5/Col 1)*Note 1, above					LR-SSR-104, at 1			
3/	USPS-T-5, Appendix B, at 2					(18096141-18020243)/18020243			
	(Col 6/Col 1)*Note 1, above					0.0042118			
					5/	(Col 2 *(1+ 0.004212))-Col 2			

OCAPROP.xls

WORKSHEET 4									
USPS AND OCA TYAR CHANGES IN COST FOR RESPECTIVE PO BOX PROPOSALS COMPARED									
(000)									
DESCRIPTION	FY96 TYAR			FY96 TYAR			FY96 TYAR		
	USPS DELIVERY COST INCREASE	USPS MAIL PROCESSING COST SAVINGS	USPS NET COST INCREASE	OCA MAIL PROCESSING COST INCREASE	OCA DELIVERY COST SAVINGS	OCA NET COST DECREASE	USPS TYAR ATTRIBUTABLE COSTS*	CHANGE IN USPS TYAR ATTRIBUTABLE COSTS w/o USPS PO BOX PROPOSAL	CHANGE IN USPS TYAR ATTRIBUTABLE COSTS w/ OCA PO BOX PROPOSAL
	[1]	[2]	[3]=[1]+[2]	[4]	[5]	[6]=[4]+[5]	[7]	[8]=[7]-[3]	[9]=[8]+[6]
FIRST-CLASS									
Letter NP	37562	-28339	9223	1014	-1344	-330	14,294,372	14,285,149	14,284,819
Letter 5-D									
Letter C-Rte									
TTL Presort	16003	-8494	7509	304	-573	-269	4,267,923	4,260,414	4,260,145
Post Card	61	-24	37	1	-2	-1	33,089	33,052	33,051
P-Card Nonpresrt	1744	-857	887	31	-62	-31	457,513	456,626	456,595
P-Card 5-Digit									
P-Card C-Rte									
Total Prst Cds	502	-113	389	4	-18	-14	141,247	140,858	140,844
TTL First-Class	55872	-37827	18045	1354	-1999	-645	19,194,144	19,176,099	19,175,454
PRIORITY	792	-1132	-340	41	-28	13	1,620,866	1,621,206	1,621,219
EXPRESS MAIL	562	-48	514	2	-20	-18	538,225	537,711	537,693
MAILGRAMS	1	0	1	0	0	0	789	788	788
SECOND CLASS	5326	-2481	2845	89	-191	-102	1,787,284	1,784,439	1,784,337
THIRD CLASS	19962	-13681	6281	489	-714	-225	7,776,150	7,769,869	7,769,644
FOURTH CLASS									
PP Unified/TTL Zo	299	-308	-9	11	-11	0	716,018	716,027	716,027
Bd Printed Matter	309	-114	195	4	-11	-7	289,127	288,932	288,925
Special Rate	220	-108	112	4	-8	-4	299,117	299,005	299,001
Library Rate	19	-54	-35	2	-1	1	43,925	43,960	43,961
TTL Fourth Class	846	-585	261	21	-31	-10	1,348,187	1,347,924	1,347,914
Blind/USPS Penalty	292	-34	258	1	-10	-9	29,618	29,360	29,351
International	329	-112	217	4	-12	-8	1,360,689	1,360,472	1,360,464
TTL Mail	83982	-55901	28081	2001	-3005	-1004	33,655,952	33,627,868	33,626,864
Registry	94	-1	93	0	-3	-3	72,419	72,326	72,323
Insured	55	-2	53	0	-2	-2	42,249	42,196	42,194
Certified	1904	-16	1888	1	-71	-70	297,811	295,923	297,881
Return Receipt									
C O D	98	0	98	0	-4	-4	20,814	20,716	20,712
Money Orders	33	-11	22	0	-1	-1	195,663	195,641	195,640
Special Delivery	0	0	0	0	0	0			
P O Boxes w/o NRF				0	0	0	516,598	-	-
P O Box NRF				0	0	0			
Special Handling	0	0	0	0	0	0	4,716	4,716	4,716
Stamped Envelopes	0	0	0	0	0	0	14,655	14,655	14,655
Other	0	0	0	0	0	0	220,053	220,053	220,053
Stamped Card	0	0	0	0	0	0			
TTL Special Servi	2185	-30	2155	1	-81	-80	1,384,978	-	-
Domestic Fees	0		0	0		0	0		0
International Fees	0		0	0		0	0		0
TTL Fees	0		0	0		0	0		0
Other	0		0	0		0	0		0
Return Receipt	0		0	0		0	0		0
Misc	0		0	0		0	0		0
Philatelic	0		0	0		0	0		0
GRAND TOTAL	86167	-55931	30236	2002	-3086	-1084	35,040,930	-	-
NOTES AND SOURCES									
Column						Column			
[1]	USPS-T-5, Appendix B, at page 6, Column					[6]	Col [4] + [5]		
[2]	USPS-T-5, Appendix B, at page 6, Column					[7]	USPS-T-5, Exh I, at 3 and 4		
[3]	Col [1] + [2]					[8]	Col [7] - [3]		
[4]	Worksheet 1, Col 5					[9]	Col [8] - [6]		
[5]	Worksheet 1, Col 6						Reflects OCA rejection of USPS proposal for Certified and Postal Card		

OCA MC96-3 PROPOSAL COMPARISON

(Dollars in Millions)

Description	A USPS TYBR Revenue	B USPS TYBR Cost	[3] USPS TYBR A - B	C OCA TYAR Rev	D OCA TYAR Cost	[6] OCA TYAR C-D	F Revenue Compar C-A	G Cost Compar D-B	Delta F - G also [6]-[3]
First-Class									
Letter NP	21,290,478	14,277,863	7,012,615	21,290,502	14,284,819	7,005,683	0,024	6,956	(6,932)
Letter 5-D	9,753,457			9,753,457			-	-	-
Letter C-Rte	866,892			866,892			-	-	-
TTL Presort	10,620,349	4,261,896	6,358,453	10,620,349	4,260,145	6,360,204	-	(1,751)	1,751
Govt Postal Card	85,724	33,089	52,635	85,724	33,051	52,673	-	(0,04)	0,038
P-Card Nonprsr	569,049	456,880	112,169	569,049	456,595	112,454	-	(0,285)	0,285
P-Card 3/5-Digit	271,021		271,021	271,021		271,021	-	-	-
P-Card C-Rte	69,094	140,809	(71,715)	69,094	140,844	(71,750)	-	0,035	(0,035)
Total Prst Cds	909,164	597,689	311,475	909,164	597,439	311,725	-	(0,250)	0,250
TTL First-Class	32,905,715	19,170,537	13,735,178	32,905,739	19,175,454	13,730,285	0,024	4,917	(4,893)
Priority									
Express Mail	3,437,199	1,619,835	1,817,364	3,438,640	1,621,219	1,817,421	1,441	1,384	0,057
Mailgrams	736,783	536,813	199,970	739,370	537,693	201,677	2,587	0,880	1,707
Second Class	1,848	0,790	1,058	1,848	0,788	1,060	-	(0,002)	0,002
Third Class	1,979,249	1,785,158	194,091	1,979,249	1,784,337	194,912	-	(0,821)	0,821
Fourth Class	12,249,113	7,767,260	4,481,853	12,249,112	7,769,644	4,479,468	(0,001)	2,384	(2,385)
PP Unified	745,106	714,903	30,203	746,218	716,027	30,191	1,112	1,124	(0,012)
Bd Printed Matter	518,823	289,084	229,739	518,823	288,925	229,898	-	(0,159)	0,159
Special Rate	405,940	299,034	106,906	405,975	299,001	106,974	0,035	(0,033)	0,068
Library Rate	43,434	43,917	(0,483)	43,436	43,961	(0,525)	0,002	0,044	(0,042)
TTL Fourth Class	1,713,303	1,346,938	366,365	1,714,452	1,347,914	366,538	1,149	0,976	0,173
Blind/Overseas Voters									
International	-	29,605	(29,605)	-	29,351	(29,351)	-	(0,254)	0,254
TTL Mail	1,392,208	1,360,291	31,917	1,392,208	1,360,464	31,744	-	0,173	(0,173)
Registry									
Insured	54,415,416	33,617,227	20,798,191	54,420,618	33,626,864	20,793,754	5,200	9,637	(4,437)
Certified *	105,563	73,106	32,457	104,110	72,323	31,787	-1,453	-0,783	(0,670)
Return Receipt	49,162	34,254	14,908	62,681	42,194	20,487	13,519	7,940	5,579
C O D	318,574	297,811	20,763	318,574	297,881	20,693	0,000	0,070	(0,070)
Money Orders	19,775	20,799	(1,024)	19,775	20,712	-0,937	0,000	-0,087	0,087
Special Delivery	169,692	195,446	(25,754)	169,692	195,640	-25,948	0,000	0,194	(0,194)
P O Boxes w/o NRF	2,086	1,753	0,333	0	0	0,000	-2,086	-1,753	(0,333)
P O Box NRF	528,513	529,374	(0,861)	535,300	529,832	5,468	6,787	0,458	6,329
Special Handling	0	0	0	0	0	0	0	0	0
Stamped Envelopes	0,897	4,712	(3,815)	0,897	4,716	-3,819	0,000	0,004	(0,004)
Other	23,262	14,651	8,611	23,262	14,655	8,607	0,000	0,004	(0,004)
Stamped Card		219,910	(219,910)		220,053	-220,053	0,000	0,143	(0,143)
TTL Special Services	1,217,524	1,391,816	(174,292)	1,234,292	1,398,006	(163,714)	16,768	6,190	10,578
Domestic Fees									
International Fees	316,603	-	316,603	316,603	-	316,603	-	-	-
TTL Fees	262,289	-	262,289	262,289	-	262,289	-	-	-
Other									
Return Receipt	578,892	-	578,892	578,892	-	578,892	-	-	-
Misc		20,759,479	(20,759,479)		20,766,194	(20,766,194)	-	6,715	(6,715)
Philatelic	289,135	227,423	61,712	289,135	227,423	61,712	-	-	-
Grand TTL	170,670		170,670	170,67		170,670	-	-	-
	33,272		33,272	33,272		33,272	-	-	-
	56,704,911	55,995,945	708,966	56,726,879	56,018,487	708,392	21,968	22,542	(0,574)

Comparison of OCA to USPS Revenue	\$ 21,968
Comparison of OCA to USPS Expense	\$ 22,542
Net Increase in Income w/o Interest Inco	\$ (0,574)
Estimated Investment Income **	\$ 0,051
OCA Net Income Impact	\$ (0,523)

Footnotes:

Column A and B from USPS T5F, and USPS-T-1, WP E and F

Column C and D from USPS-T-1 WP E with effect of OCA Proposals (Worksheet 4)

Column D from Worksheet 4, OCA-LR-3 at 3, and OCA Postal Card & Certified/Return Receipt

Column C from USPS-T-1 WP E, adjusted for the rejection of USPS Return Receipt, Certified,

Postal Card. To USPS TYBR add Insurance and subtract out Special Delivery

* OCA rejected USPS proposal USPS TYBR cost, \$297,811, plus OCA P O Box Cost Proposal (Worksheet 4), equals \$297,881


**See USPS-T-1, Exh A, adj for OCA proposals

Note USPS Other - Error in filename MXARSS.xls, worksheet "carriers", cell J25

Difference in Total OCA TYAR Rev to file OCAEXA.xls due to rounding

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.


SHELLEY DREIFUSS
Attorney

Washington, D.C. 20268-0001
January 14, 1997